Allen County Schools Health Benefit Plan
Allen County
Financial Statement Audit

For the Fiscal Years Ended June 30, 2010 and 2009

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Allen County School Health Benefit Plan, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2008 through June 30, 2010. 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 School Health Benefit Plan is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

March 28, 2011

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
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ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
ALLEN COUNTY

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January 24, 2011

To the Board of Trustees
Allen County Schools 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, 2010 and June 30, 2009. 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 *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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, 2010 and June 30, 2009, and the respective changes in modified cash basis financial position 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 January 24, 2011 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 16 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.

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ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and June 30, 2009

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, 2010 and June 30, 2009. 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, 2010

- Total operating receipts were $19.25 million, representing contributions from 12 plan members during the period from July 1, 2009 through June 30, 2010.
- Total non-operating receipts were $723,787 for the fiscal year.
- Total disbursements were $21.49 million, with claims payments representing $20.02 million, or 93.1%, insurance premium coverage represented $1,004,963, or 4.7% and administrative and professional disbursements represented 2.2%.
- Projected liabilities were $2.12 million at June 30, 2010.

Financial Highlights, Fiscal Year Ending June 30, 2009

- Total operating receipts were $16.94 million, representing contributions from 12 plan members during the period from July 1, 2008 through June 30, 2009.
- Total non-operating receipts were $289,768 for the fiscal year.
- Total disbursements were $18.75 million, with claims payments representing $17.01 million, or 90.7%, insurance premium coverage represented $1.25 million, or 6.7% and administrative and professional disbursements represented 2.6%.
- Projected liabilities were $1.91 million at June 30, 2009.

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 2010 and 2009?" The Statements of Net Assets – Modified Cash Basis and the Statements 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.

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, 2010, 2009 and 2008.

(Table 1)
Financial Analysis

Net Assets – Modified Cash Basis

	2010	2009	2008
Assets			
Equity in pooled cash & cash equivalents	$ 4,243,943	$ 3,727,848	$3,638,762
Investments	0	2,039,574	3,654,843
Total assets	$ 4,243,943	$ 5,767,422	$7,293,605
Net Cash Assets			
Unrestricted	$ 4,243,943	$ 5,767,422	$7,293,605
Total net cash assets	$ 4,243,943	$ 5,767,422	$7,293,605

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Plan's net assets totaled $4,243,943. The Plan has experienced decreasing net assets since June 30, 2008.

The table below shows the changes in net assets for the years ending June 30, 2010 as compared to June 30, 2009 and 2008. This will enable the reader to draw further conclusions about the Plan's financial status and possibly project future problems.

(Table 2)
Change in Net Cash Assets

	2010	2009	2008
Total operating receipts	$ 19,248,899	$ 16,938,206	$15,963,456
Total operating disbursements	21,496,165	18,754,157	18,069,240
Operating loss	(2,247,266)	(1,815,951)	(2,105,784)
Total non-operating receipts	723,787	289,768	614,623
Decrease in net assets	$ (1,523,479)	$ (1,526,183)	$(1,491,161)

From fiscal year 2009 to 2010 net assets decreased $1,523,479 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 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, 2010

Assets:		
Equity in pooled cash and cash equivalents	$	4,243,943
Total assets	**$**	**4,243,943**
Net Assets:		
Unrestricted	$	4,243,943
Total net cash assets	**$**	**4,243,943**

See accompanying notes to the 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, 2010

Operating cash receipts:	
Contributions from Members	$ 19,242,334
Buy-in Fee	6,565
Total operating cash receipts	19,248,899
Operating cash disbursements:	
Professional Fees	155,455
Administrative Fees	316,113
Insurance Premium for Coverages	1,004,962
Claims	20,019,635
Total operating cash disbursements	21,496,165
Operating loss	(2,247,266)
Non-operating cash receipts:	
Interest Income	70,438
Refund of Prior Year Disbursements	653,349
Total non-operating cash receipts	723,787
Change in cash net assets	(1,523,479)
Net assets at beginning of year	5,767,422
Net assets at end of year	$ 4,243,943

See accompanying notes to the basic financial statements.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Statement of Net Assets - Modified Cash Basis
June 30, 2009

Assets:		
Equity in pooled cash and cash equivalents	$	3,727,848
Investments		2,039,574
Total assets	**$**	**5,767,422**
Net Assets:		
Unrestricted	$	5,767,422
Total net cash assets	**$**	**5,767,422**

See accompanying notes to the 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, 2009

Operating cash receipts:	
Contributions from Members	$ 16,836,170
Buy-in Fee	102,036
Total operating cash receipts	16,938,206
Operating cash disbursements:	
Professional Fees	177,734
Administrative Fees	308,635
Insurance Premium for Coverages	1,253,836
Claims	17,013,952
Total operating cash disbursements	18,754,157
Operating loss	(1,815,951)
Non-operating cash receipts:	
Interest Income	161,418
Refund of Prior Year Disbursements	128,350
Total non-operating cash receipts	289,768
Change in cash net assets	(1,526,183)
Net assets at beginning of year	7,293,605
Net assets at end of year	$ 5,767,422

See accompanying notes to the basic financial statements.

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, 2010 and June 30, 2009, there were 12 participating member school districts of the Plan providing services to approximately 1,500 and 1,490 participants, respectively. 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.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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

For the fiscal year ended June 30, 2010 and June 30, 2009, 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, disbursements and changes in net assets – modified cash basis. The Statement of Net Assets presents the financial condition of the Plan 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, 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 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 – CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2010, the Plan has implemented GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*," GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*," and GASB Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*."

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES (continued)

For the year ended June 30, 2009, the Plan implemented GASB Statement No. 52, *"Land and Other Real Estate Held as Investments by Endowments"*, GASB Statement No. 55, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, and GASB Statement No. 56, *"Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards"*.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

GASB Statement No. 56 incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Plan.

NOTE 4 – 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 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.

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

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 (STAROhio);

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

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

At June 30, 2010, the carrying amount of the Plan's deposits was $3,033,294 and the bank balance was $3,900,829. Of the bank balance, $1,003,861 was covered by Federal Depository Insurance and $2,896,968 was uninsured and collateralized.

At June 30, 2009, the carrying amount of the Plan's deposits was $2,376,675 and the bank balance was $3,912,164. Of the bank balance, $978,072 was covered by Federal Depository Insurance and $2,934,092 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, 2010, the Plan's investments were as follows:

	Carrying Value	Maturities < 1 yr	Maturities 1-5 yrs
Money Market	$1,206,473	$ 1,206,473	$ 0
STAROhio	4,176	4,176	0
Total	$1,210,649	$ 1,210,649	$ 0

As of June 30, 2009, the Plan's investments were as follows:

	Carrying Value	Maturities < 1 yr	Maturities 1-5 yrs
Federal National Mortgage Assn.	$1,532,271	$ 514,730	$1,017,541
Federal Home Loan Mortgage Corp.	507,303	507,303	0
Money Market	1,204,562	1,204,562	0
STAROhio	146,611	146,611	0
Total	$3,390,747	$ 2,373,206	$1,017,541

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 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."

The money market account held with Huntington and STAROhio have credit ratings of AAAm with Standard and Poor's and are held by the investment's counterparty and not in the name of the Plan.

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

Concentration Risk
The Plan places no limit on the amount that may be invested in any one issuer. During fiscal year 2010, more than five percent of the Plan's investments are in the Money Market Account at Huntington. These investments are 99.6% of the Plan's total investments for the amounts listed above.

During fiscal year 2009, more than five percent of the Plan's investments are in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and the Money Market Account at Huntington. These investments are 45.19%, 14.96% and 35.52%, respectively, of the Plan's total investments for the amounts listed above.

NOTE 5 – 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.

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

	June 30, 2010	June 30, 2009
Cash and Investments	$ 4,243,943	$ 5,767,422
Actuarial liabilities	2,127,206	1,909,703

NOTE 6 – 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 Express Scripts and National Vision Administrators for prescription and vision administration, respectively.

NOTE 7 – 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 fiscal year 2010, the Loss Reserve increased $217,503 to $2,127,206. The estimated expenses that have been incurred but not recorded represent 11.9% of the incurred and paid claims for fiscal year 2010. Total expenses for the year ended June 30, 2010 were approximately $21.4 million.

In fiscal year 2009, the Loss Reserve decreased $102,847 to $1,909,703. The estimated expenses that have been incurred but not recorded represent 12.3% of the incurred and paid claims for fiscal year 2009. Total expenses for the year ended June 30, 2009 were approximately $18.8 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 ended June 30, 2010 and June 30, 2009 are $384,375 and $601,878, respectively.

The total reserve for claim loss for fiscal years ended June 30, 2010 and June 30, 2009, 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:

Fiscal Year	Beginning Balance	Claims	Payments	Ending Balance
2009	$2,012,550	$16,911,105	$17,013,952	$1,909,703
2010	1,909,703	20,237,138	20,019,635	2,127,206

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION

	Plan Year			
	7/1/2006 - 6/30/2007	7/1/2007 - 6/30/2008	7/1/2008 - 6/30/2009	7/1/2009 - 6/30/2010
Premiums and Investment revenue:				
Earned	$ 15,340,412	$ 15,729,081	$ 15,590,255	$ 17,233,429
Ceded	(450,174)	(715,240)	(796,326)	(593,611)
Net Earned	14,890,238	15,013,841	14,793,929	16,639,818
Unallocated Expenses	1,023,006	1,038,924	1,349,679	1,038,533
Estimated losses and Expenses, end of accident year:				
Incurred	13,131,133	12,604,525	14,588,601	17,325,666
Ceded	0	0	0	0
Net incurred	13,131,133	12,604,525	14,588,601	17,325,666
Net Paid Cumulative as of:				
End of accident year	11,646,632	12,607,552	13,335,870	15,633,621
One year later	1,483,499	1,227,005	1,695,374	
Two years later	25,726	(3,329)		
Three years later	0			
Re-estimated ceded losses and expenses	0	0	0	0
Re-estimated net incurred losses and expenses:				
End of accident year	11,646,632	12,607,552	13,335,870	15,633,621
One year later	1,483,499	1,227,005	1,695,374	
Two years later	25,726	(3,329)		
Three years later				

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

January 24, 2011

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 the business-type activity of Allen County Schools Health Benefit Plan (the "Plan") as of and for the years ended June 30, 2010 and June 30, 2009, which comprise the Plan's basic financial statements and have issued our report thereon dated January 24, 2011, wherein we noted the Plan uses a comprehensive accounting basis other than generally accepted accounting principles. 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness as Finding #2010-01.

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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*.

We noted certain matters that we reported to management of Allen County Schools Health Benefit Plan in a separate letter dated January 24, 2011.

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 the 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 Trustees 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 Ended June 30, 2010 and June 30, 2009

1. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

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

FINDING NUMBER 2010-01

Significant Deficiency/Material Weakness

Criteria: Sound reporting is the responsibility of the Allen County Schools Health Benefit Plan (the "Plan") treasurer and is essential to ensure that the information presented to the readers of the financial statements is complete and accurate.

Condition Found: We noted several adjustments were required to be posted to the underlying accounting records in order to reconcile cash balances and complete the compilation of Allen County Schools Health Benefit Plan's financial statements.

Effect: For fiscal year 2010, the accounting balances were adjusted to reflect understated disbursements.

Recommendations: 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.

Corrective Action: Contact Person: Karla Wireman, Treasurer
Management will begin implementing procedural changes to perform monthly review of the cash reconciliation performed by the third party administrator and agree the accounting records of the Plan in a timely manner. Additional communication with third party administrator has also been implemented to correct some issues.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Schedule of Prior Audit Findings
For Fiscal Years Ended June 30, 2010 and June 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-01	Financial Statements – Significant audit adjustments	No	Not Corrected – repeated as Finding 2010-01

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Dave Yost • Auditor of State

ALLEN COUNTY SCHOOL 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
APRIL 7, 2011

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