

**Hancock County Schools Health Benefit Fund**  
**Hancock County**  
*Financial Statement Audit*

For the Fiscal Year Ended September 30, 2010



**Rea & Associates, Inc.**

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*





# Dave Yost • Auditor of State

Board of Trustees  
Hancock County Schools Health Benefit Fund  
7746 County Road 140  
Findlay, Ohio 45840

We have reviewed the *Independent Auditor's Report* of the Hancock County Schools Health Benefit Fund, Hancock County, prepared by Rea & Associates, Inc., for the audit period October 1, 2009 through September 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 Hancock County Schools Health Benefit Fund is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

April 5, 2011

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**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

March 24, 2011

Board of Trustees  
Hancock County Schools Health Benefit Fund  
Findlay, Ohio

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the business-type activity of the Hancock County Schools Health Benefit Fund (the "Fund") as of and for the year ended September 30, 2010. These financial statements are the responsibility of the Fund'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 Fund as of September 30, 2010, and the respective change in modified cash basis financial position for the year 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 March 24, 2011, on our consideration of the Fund'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 3 through 5 and the required supplementary information on page 14 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hea & Associates, Inc.*

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2010*

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The following report reflects on the financial condition of the Hancock County Schools Health Benefit Fund (the "Fund") for the fiscal year ended September 30, 2010. Within the limitations of the Fund'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 accordance with the report.

**Financial Highlights, Fiscal Year Ending September 30, 2010**

- Total operating receipts were \$8,282,523, representing contributions from 9 plan members during the period from October 1, 2009 through September 30, 2010.
- Total non-operating receipts were \$10,438 for the fiscal year.
- Total disbursements were \$8,263,897 with claims payments representing \$7,324,443, or 88.6 percent and administrative and professional disbursements represented 11.4 percent.

**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 Fund'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 Fund'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 Fund.

**Reporting the Fund's Financial Activities**

**Statement of Cash Receipts, Disbursements, and Changes in Fund Balances**

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal year 2010?" 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. This statement reports the Fund'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 Fund as a whole, the modified cash basis financial position of the Fund 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.



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2010*

The table below provides a summary of the Fund's net assets at September 30, 2010 and 2009.

**(Table 1)  
Financial Analysis**

**Net Assets – Modified Cash Basis**

	<b>2010</b>	<b>2009</b>
Assets		
Equity in pooled cash & cash equivalents	\$ 907,467	\$ 237,690
Investments	698,073	1,338,786
Total assets	\$ 1,605,540	\$ 1,576,476
Net Cash Assets		
Unrestricted	\$ 1,605,540	\$ 1,576,476
Total net cash assets	\$ 1,605,540	\$ 1,576,476

Over time, net assets can serve as a useful indicator of a government's financial position. At September 30, 2010, the Fund's cash net assets totaled \$1,605,540.

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

**(Table 2)  
Change in Net Cash Assets**

	<b>2010</b>	<b>2009</b>
Total operating receipts	\$ 8,282,523	\$ 8,287,754
Total operating disbursements	8,263,897	8,509,741
Operating income (loss)	18,626	(221,987)
Total non-operating receipts	10,438	17,860
<b>Increase (decrease) in net assets</b>	<b>\$ 29,064</b>	<b>\$ (204,127)</b>

From fiscal year 2009 to 2010, change in net assets increased \$233,189 primarily as a result of member contributions covering total claims paid. Decreased healthcare claims also contributed to the net asset increase.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2010*

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**Current Financial Related Activities**

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

The Fund 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 Fund and it is committed to managing the pool to protect the long-term financial interests of its members.

The Fund 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 fund manager, Larry Busdeker, continually discuss program enhancements, long-term viability and management risks inherent in these benefit programs.

Like all employer-sponsored health insurance programs, the Fund'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 Fund must collectively bargain benefit levels with the respective employee unions. Even with these challenges, a collective approach to managing health care within the Fund provides many advantages over individual management by school district.

**Contacting the Fund's Financial Management**

This financial report is designed to provide our member districts and citizens with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Larry Busdeker, Superintendent, Hancock County ESC, 7746 Count Rd., Findlay, Ohio 45840.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
SEPTEMBER 30, 2010

**ASSETS:**

Equity in pooled cash and cash equivalents	\$ 907,467
Investments	<u>698,073</u>

<b>TOTAL ASSETS</b>	<b>\$ <u>1,605,540</u></b>
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**NET ASSETS:**

Unrestricted	\$ <u>1,605,540</u>
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<b>TOTAL NET CASH ASSETS</b>	<b>\$ <u>1,605,540</u></b>
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See accompanying notes to the basic financial statements.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
NET ASSETS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	<b>2010</b>
<b>OPERATING CASH RECEIPTS:</b>	
Contributions from members	\$ 8,268,180
Insurance reimbursements	14,343
<b>Total operating cash receipts</b>	<b>8,282,523</b>
 <b>OPERATING CASH DISBURSEMENTS:</b>	
Medical, dental and vision claim payments	7,324,443
Administrative fees	581,463
Insurance Premium for Coverages	305,267
Professional and consulting fees	47,613
Investment fees	5,111
<b>Total operating cash disbursements</b>	<b>8,263,897</b>
<b>Operating income</b>	<b>18,626</b>
 <b>NON-OPERATING CASH RECEIPTS:</b>	
Investment income	10,438
<b>Total non-operating cash receipts</b>	<b>10,438</b>
<b>Change in cash net assets</b>	<b>29,064</b>
 <b>NET ASSETS, beginning of year</b>	 <b>1,576,476</b>
<b>NET ASSETS, end of year</b>	<b>\$ 1,605,540</b>

See accompanying notes to the basic financial statements.



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY**

The Hancock County Schools Health Benefit Fund (the “Fund”) was created for the purpose of establishing and administering a cooperative health insurance program for school districts located in Hancock County, Ohio. The Fund is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Currently, the Fund has nine participating members: Hancock County Board of Education, Arcadia Local School District, Arlington Local School District, Blanchard Valley Local School District, Cory-Rawson Local School District, Liberty-Benton School District, McComb School District, Van Buren Local School District, and Vanlue Local School District.

Members pay monthly premiums that are placed in a common Trust Fund from which eligible claims are paid for member employees and their covered dependents. The Trust Fund is held by a Trustee, which holds, invests and reinvests all or part of the Fund.

The Fund’s management believes this financial statement presents all activities for which the Fund 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 Fund’s financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Fund’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 Fund 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.



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A. Basis of Accounting (continued)

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

B. Basis of Presentation

For the fiscal year ended September 30, 2010, the Hancock County Schools Health Benefit Fund 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 Fund’s financial statements consist of a statement of cash receipts, cash disbursements and changes in net assets. The statement of net assets presents the financial condition of the Fund 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 Fund 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 Hancock 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 Fund or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Fund had no restricted net assets at fiscal year-end.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

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

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES (CONTINUED)**

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.

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 Fund.

**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 Fund 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.



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)**

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 Fund'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 Fund primarily funds to meet the basic monetary demands of its claims and administration payments. It had Interim deposits to invest as of September 30, 2010.

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.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)**

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 Fund'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 September 30, 2010, the carrying amount of the Fund's deposits and the bank balance was \$183,257, which was covered fully by the Federal Deposit Insurance Corporation (FDIC).

***Investments***

As of September 30, 2010, the Fund had the following investments:

		<u>% Total</u>	<u>Maturities</u>	
			<u>&lt; One Year</u>	<u>1-5 Years</u>
Federated Mutual Funds	\$ 724,210	51%	\$ 724,210	\$ 0
U.S. Treasury Notes	<u>698,073</u>	<u>49%</u>	<u>372,324</u>	<u>325,749</u>
	<u>\$ 1,422,283</u>	<u>100%</u>	<u>\$ 1,096,534</u>	<u>\$ 325,749</u>

***Interest Rate Risk***

The Fund has no investment policy that addresses interest rate risk. State statute requires that investments mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Fund, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase.

***Credit Risk***

As of September 30, 2010, the Federated Mutual Funds and the U.S. Treasury note obligations were rated Aaa by Moody's .



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)**

*Concentration of Credit Risk*

The Fund places no limit on the amount it may invest in any one issuer. At September 30, 2010, the investments in Federated mutual funds account for 51% and U.S. Treasury Note investments account for 49% of the Fund's total investments.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee. The Fund places no limit on the amount it may invest in any one issuer.

**NOTE 5 – RISK MANAGEMENT**

The Fund, which is open to any board of education of any school district in Hancock County of Ohio, is governed by a Board of Trustees. The Board of Trustees selects qualified insurance companies to provide the health insurance program with adequate coverage to meet the needs of each member under its benefit plan for its employees. The Board of Trustees also purchases stop loss coverage for claims in excess of a set amount both for individual claims and in the aggregate. At September 30, 2010, the attachment point for individual claims was \$100,000 for each covered individual. The aggregate deductible for the year ended September 30, 2010 was the greater of \$7,568,327 or a computed minimum aggregate deductible per covered unit as defined by the policy terms.

Each member of the Fund is obligated to pay a fee based on an estimate of the member's share of the Fund costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health, dental, vision, and stop-loss insurance premiums, and their proportionate share of the administrative cost of the Fund.

Member schools may terminate participation in the Fund upon written notification to the Administrative Committee delivered at least sixty days prior to the annual renewal date of the policy, and may be removed for failure to make the required payments. Upon termination of a member school, such member school shall be responsible for prompt payment of all claims of its eligible employees accruing as a result of such termination.

**NOTE 6 – ACTUARIAL REPORT**

Actuarial valuations of claim liability and funded status were performed for the year ended September 30, 2010. The purpose of the valuations is to estimate claims that have been incurred, whether reported at September 30, 2010, or not, under the Fund as of the valuation date, and to compare its liability to funds reserved. Information regarding the financial status as of September 30, 2010 is as follows:



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 6 – ACTUARIAL REPORT (CONTINUED)**

	<b>2010</b>
Cash and investments	\$ 1,605,540
Actuarial liability	1,199,923
Net surplus of cash reserves	\$ 405,617

**NOTE 7 – CONTRACTED SERVICES**

The Fund contracts with Hylant Group, Inc. and Benefit Services, Inc. to provide services and advice for insurance plans that include medical, prescription drugs and dental. Contracts also exist with Express Scripts and Quantum Health for prescription and disease management administration, respectively.

**NOTE 8 – RESERVE FOR CLAIMS LOSSES**

Hancock County Schools Health Benefit Fund, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In 2010, the Loss Reserve decreased \$176,491 to \$1,199,923. The estimated expenses that have been incurred but not recorded represent 16.4 percent of the incurred and paid claims for fiscal year 2010. Total expenses for the year ended September 30, 2010 were approximately \$7.3 million.

The Fund 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 year 2010 is \$364,362.

The total reserve for claim loss for fiscal year 2010, including the loss reserve and fluctuation reserve is \$1,564,285.

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

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims</b>	<b>Payments</b>	<b>Ending Balance</b>
2009	\$1,264,920	\$7,692,594	\$7,581,100	\$1,376,414
2010	\$1,376,414	\$7,147,952	\$7,324,443	\$1,199,923

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**

**REQUIRED SUPPLEMENTARY INFORMATION  
LOSS DEVELOPMENT INFORMATION**

	<u>Plan Year</u>	
	<u>10/1/2008 - 9/30/2009</u>	<u>10/1/2009 - 9/30/2010</u>
<b>Premiums and Investment revenue:</b>		
Earned	\$ 7,900,906	\$ 8,295,710
Ceded	(843,350)	(825,946)
<b>Net Earned</b>	<u>7,057,556</u>	<u>7,469,764</u>
<b>Estimated losses and Expenses, end of accident year:</b>		
Incurred	<u>1,376,414</u>	<u>1,199,923</u>
<b>Net incurred</b>	1,376,414	1,199,923
<b>Net Paid Cumulative as of:</b>		
End of accident year	6,524,578	6,697,666
One year later	607,645	
<b>Re-estimated net incurred losses and expenses:</b>		
End of accident year	6,524,578	6,697,666
One year later	7,132,223	



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

March 24, 2011

Board of Trustees  
Hancock County Schools Health Benefit Fund  
Findlay, Ohio

## **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 the Hancock County Schools Health Benefit Fund (the "Fund") as of and for the year ended September 30, 2010, and have issued our report thereon dated March 24, 2011, wherein we noted the Fund 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 Hancock County Schools Health Benefit Fund'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 the Hancock County Schools Health Benefit Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund's internal control over financial reporting.

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 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County Schools Health Benefit Fund'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 the Hancock County Schools Health Benefit Fund in a separate letter dated March 24, 2011.

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.*



# Dave Yost • Auditor of State

**HANCOCK SCHOOLS HEALTH BENEFIT FUND**

**HANCOCK 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  
MAY 5, 2011**