

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

AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016**

James G. Zupka, CPA, Inc.
Certified Public Accountants



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, prepared by James G. Zupka, CPA, Inc., for the audit period October 1, 2015 through September 30, 2016. 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

January 31, 2017

This page intentionally left blank.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	4-6
Statement of Net Position – Cash Basis	7
Statement of Cash Receipts, Disbursements, and Change in Net Position – Cash Basis	8
Notes to the Basic Financial Statements	9-16
Required Supplemental Information: Loss Development Information	17
Report on Internal Control over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 – 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Hancock County Schools Health Benefit Fund, Hancock County, Ohio, (the Fund) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Hancock County Schools Health Benefit Fund, as of September 30, 2016, and the changes in cash financial position, thereof for the year ended in accordance with the cash basis of accounting described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

We applied no procedures to information in the Management's Discussion and Analysis and loss development information and we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the Hancock County Schools Health Benefit Fund, Ohio's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hancock County Schools Health Benefit Fund, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2016.12.20 13:11:21 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 12, 2016

This page intentionally left blank.

HANCOCK COUNTY SCHOOL EMPLOYEES BENEFIT FUND
HANCOCK COUNTY, OHIO
MANGAEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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, 2016. Within the limitations of the Fund’s cash basis of accounting, this information is provided to enhance the information in the financial statements and the corresponding notes and should be reviewed in concert with the report.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Total operating receipts were \$8,641,875, representing contributions from nine Fund members during the period from October 1, 2015 through September 30, 2016.
- Total non-operating receipts were \$24,935 for the fiscal year.
- Total disbursements were \$8,401,783, with claims payments representing \$7,455,263, or 88 percent, administrative fees representing \$563,170, or 7 percent, insurance premium for coverage representing \$312,200, or 4 percent, and professional, and investment fee disbursements representing 1 percent.

Using this Annual Report

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 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 Position – Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Change in Net Position – Cash Basis* provide information about the activities of the Fund.

Reporting the Fund’s Financial Activities

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

These statements look at all financial transactions and ask the question, “How did we do financially during fiscal year 2016?” The *Statement of Net Position – Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Change in Net Position - Cash Basis* answer these questions.

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

As a result of the use of the cash basis of accounting, certain assets and deferred outflows of resources and their related receipts (such as accounts receivable) and liabilities and deferred inflows of resources and their related disbursements (such as claims payable) are not recorded in these 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 cash basis of accounting.

**HANCOCK COUNTY SCHOOL EMPLOYEES BENEFIT FUND
HANCOCK COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

The table below provides a summary of the Fund's net position at September 30, 2016 and 2015.

**Table 1
Net Position - Cash Basis**

	2016	2015
<u>ASSETS</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 3,946,080	\$ 3,681,053
Total Assets	<u>\$ 3,946,080</u>	<u>\$ 3,681,053</u>
<u>Net Position</u>		
Unrestricted	\$ 3,946,080	\$ 3,681,053
Total Net Position	<u>\$ 3,946,080</u>	<u>\$ 3,681,053</u>

Over time, net position can serve as a useful indicator of a government's financial position. At September 30, 2016, the Fund's net position totaled \$3,946,080.

The table below shows the change in net position for the fiscal year ending September 30, 2016 as compared to September 30, 2015. 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 Position - Cash Basis**

	2016	2015
Total Operating Receipts	\$ 8,641,875	\$ 8,204,708
Total Operating Disbursements	8,401,783	8,221,022
Operating (Loss)/Income	240,092	(16,314)
Total Non-Operating Receipts	24,935	14,356
(Decrease) Increase in Net Position	<u>\$ 265,027</u>	<u>\$ (1,958)</u>

From fiscal year 2015 to 2016, net position increased \$265,027. This is up from fiscal year 2016, primarily due to an increase in contributions revenue which was offset by an increase in claim payments.

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.

HANCOCK COUNTY SCHOOL EMPLOYEES BENEFIT FUND
HANCOCK COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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 Educational Service Center, 7746 County Rd., Findlay, Ohio 45840.

HANCOCK COUNTY SCHOOL EMPLOYEES BENEFIT FUND
HANCOCK COUNTY, OHIO
STATEMENT OF NET POSITION – CASH BASIS
SEPTEMBER 30, 2016

ASSETS

Equity in Pooled Cash and Cash Equivalents	<u>\$ 3,946,080</u>
Total Assets	<u><u>\$ 3,946,080</u></u>

NET POSITION

Unrestricted	<u>\$ 3,946,080</u>
Total Net Position	<u><u>\$ 3,946,080</u></u>

See accompanying notes to the basic financial statements.

**HANCOCK COUNTY SCHOOL EMPLOYEES BENEFIT FUND
HANCOCK COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN
NET POSITION – CASH BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	2016
OPERATING CASH RECEIPTS:	
Contributions from members	\$ 8,223,980
Insurance rebates and reimbursements	417,895
Total Operating Cash Receipts	8,641,875
OPERATING CASH DISBURSEMENTS:	
Current:	
Instruction:	
Medical, dental and vision claim payments	7,455,263
Administrative fees	563,170
Insurance Premium for Coverages	312,200
Professional and consulting fees	58,131
Investment fees	13,019
Total Operating Cash Disbursements	8,401,783
Operating income	240,092
<u>NON-OPERATING CASH RECEIPTS</u>	
Investment Income	24,935
Total Non-Operating Cash Receipts	24,935
Change in Net Position	265,027
Net Position, Beginning of Year	3,681,053
Net Position, End of Year	\$ 3,946,080

See accompanying notes to the basic financial statements.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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 Educational Service Center, Arcadia Local School District, Arlington Local School District, Blanchard Valley Center, Cory-Rawson Local School District, Liberty-Benton Local School District, McComb Local 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 cash basis of accounting. This 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 cash basis of accounting. In cases where these 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 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 cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources 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.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Basis of Accounting** (Continued)

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.

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, 2016, 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 net position – cash basis and a statement of cash receipts, disbursements and change in net position – cash basis. The statements includes adequate disclosure of material matters, in accordance with the basis of accounting described in preceding paragraphs.

C. **Cash and Cash Equivalents**

Investments of the Fund’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Fund are presented on the financial statements as cash equivalents. 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 it is incorporated in the bylaws that the Hancock County Consortium board approves the renewal every year effective October 1st, which is the budget for the coming plan year.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. Member Contributions

Member districts contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Board of Trustees. The premiums are recorded and pooled by the Fund in a single fund from which eligible claims are paid for member district employees and their covered dependents. Each member district assumes the risks of all other members, to the extent contributions by that member district are paid into the Fund. The Fund tracks member district's contributions made to the single fund and the disbursements are paid for the member district's type of coverage.

F. Net Position

Net position is reported as restricted when there are limitations imposed on its 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 position at fiscal year-end.

G. Implementation of New Accounting Policies

For the fiscal year ended September 30, 2016, the Fund has implemented (as it pertains to the cash basis of accounting) Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement of Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Fund.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Fund.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. **Implementation of New Accounting Policies** (Continued)

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Fund.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Fund.

NOTE 3: **DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Fund 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.

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.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

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, 2016.

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 and STAR Plus);
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 Fund, 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.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the 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, 2016, the carrying amount of the Fund's deposits and the bank balance was \$232,640, which was covered fully by the Federal Deposit Insurance Corporation (FDIC).

Investments

As of September 30, 2016, the Fund had the following investments:

	Cost	Maturities in Months (at Cost)				Percentage of Total
		0-11	12-18	19-24	> 24	
Federated Money Market	\$ 1,394,590	\$ 1,394,590	\$ 0	\$ 0	\$ 0	37.55%
Freddie Mac	455,078	455,078	0	0	0	12.25%
Fannie Mae	200,020	0	0	0	200,020	5.39%
Federal Home Loan Mortgage	314,480	314,480	0	0	0	8.47%
Federal National Mortgage	849,554	849,554	0	0	0	22.88%
Federal Farm Credit Bank	499,718	0	249,795	249,923	0	13.46%
	<u>\$ 3,713,440</u>	<u>\$ 3,013,702</u>	<u>\$ 249,795</u>	<u>\$ 249,923</u>	<u>\$ 200,020</u>	<u>100.00%</u>

Interest Rate Risk

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

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 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."

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)**

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund's investment policy does not specifically address credit risk beyond requiring the Fund to only invest in securities authorized by State statute. The Federal National Mortgage Bonds, Freddie Mac, Fannie Mae, and Federal Home Loan Mortgage Bonds, carry a rating of Aaa by Moody's. The Federal Farm Credit Bank Bonds carry a rating of AA+ by Standard and Poor's. The money market account held with Federated has a credit rating of AAAm with Standard and Poor's and is held by the investment's counterparty and not in the name of the Fund.

Concentration of Credit Risk

The Fund places no limit on the amount it may invest in any one issuer. The table on page 15 includes the percentage to total of each investment type held by the Fund at September 30, 2016.

NOTE 4: **RISK MANAGEMENT**

A. **Medical and Vision/Dental Benefits**

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

B. **Stop-Loss Coverage**

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

NOTE 5: **ACTUARIAL REPORT**

Actuarial valuations of claim liability and funded status were performed for the year ended September 30, 2016. The purpose of the valuations is to estimate claims that have been incurred, whether reported 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash and Investments	\$ 3,946,080	\$ 3,681,053
Actuarial Liability	<u>1,623,782</u>	<u>1,552,383</u>
Net Surplus of Cash Reserves	<u>\$ 2,322,298</u>	<u>\$ 2,128,670</u>

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)

NOTE 6: CONTRACTED SERVICES

During fiscal year 2016, the Fund contracted with Assured PartnersNL to provide services and advice for insurance funds that include medical, prescription drugs and dental. Contracts also exist with Express Scripts and Quantum Health for prescription and disease management administration, respectively.

NOTE 7: RESERVES 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 fiscal year 2016, the Loss Reserve increased \$71,399 to \$1,623,782. The estimated expenses that have been incurred but not recorded represent 18.1 percent of the incurred and paid claims for fiscal year 2016. Total expenses for the year ended September 30, 2016 were approximately \$7 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 2016 is \$2,322,298.

The total reserve for claim loss for fiscal year 2016, including the loss reserve and fluctuation reserve is \$3,946,080. Changes in the Fund's reserve for claims losses amount for the two previous fiscal years are as follows:

Fiscal Year	Beginning Balance	Claims	Payments	Ending Balance
2015	\$ 1,448,843	\$ 7,225,688	\$ 7,122,148	\$ 1,552,383
2016	\$ 1,552,383	\$ 7,526,662	\$ 7,455,263	\$ 1,623,782

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
HANCOCK COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION

	10/1/2009 - 9/30/2010	10/1/2010 - 9/30/2011	10/1/2011 - 9/30/2012	10/1/2012 - 9/30/2013	10/1/2013 - 9/30/2014	10/1/2014 - 9/30/2015	10/1/2015 - 9/30/2016
Premiums and Investment revenue:							
Earned	\$ 8,278,618	\$ 8,360,161	\$ 8,398,035	\$ 7,795,539	\$ 8,447,808	\$ 7,911,302	\$ 8,248,915
Ceded	(305,267)	(279,052)	(283,444)	(264,062)	(283,444)	(279,977)	(312,200)
Net Earned	<u>7,973,351</u>	<u>8,081,109</u>	<u>8,114,591</u>	<u>7,531,477</u>	<u>8,164,364</u>	<u>7,631,325</u>	<u>7,936,715</u>
Unallocated Expenses	634,187	643,693	709,311	647,720	735,589	818,897	634,320
Estimated losses and Expenses, end of accident year:							
Incurred	7,147,952	6,819,629	7,695,827	6,605,180	6,908,014	7,225,688	7,526,662
Ceded	(134,115)	-	(915,480)	-	-	(15,967)	-
Net Incurred	<u>7,013,837</u>	<u>6,819,629</u>	<u>6,780,347</u>	<u>6,605,180</u>	<u>6,908,014</u>	<u>7,209,721</u>	<u>7,526,662</u>
Net Paid Cumulative as of:							
End of accident year	6,716,798	5,904,002	6,398,440	6,023,129	6,520,493	6,551,842	6,675,542
One year later	7,489,493	6,429,793	7,390,719	6,609,586	7,094,878	7,311,931	
Two years later	7,489,493	6,453,472	7,392,829	6,605,507	7,114,510		
Three year later	7,489,493	6,453,472	7,392,829	6,605,507			
Four years later	7,489,493	6,453,472	7,392,829	6,605,507			
Five years later	7,489,493	6,453,472	7,392,829	6,605,507			
Six years later	7,489,493	6,453,472	7,392,829	6,605,507			
Re-estimated ceded losses and expenses	(134,115)	-	(915,480)	-	-	n/a	n/a
Re-estimated net incurred losses and expenses:							
End of accident year	7,147,952	6,819,629	7,695,827	6,605,180	6,908,014	7,209,721	7,526,662
One year later	7,489,493	6,429,793	7,390,719	6,609,586	7,094,878	7,311,931	
Two years later	7,489,493	6,453,472	7,392,829	6,605,507	7,114,510		
Three year later	7,489,493	6,453,472	7,392,829	6,605,507			
Four years later	7,489,493	6,453,472	7,392,829	6,605,507			
Five years later	7,489,493	6,453,472	7,392,829	6,605,507			
Six years later	7,489,493	6,453,472	7,392,829	6,605,507			
Change in net incurred losses and expenses	341,541	(366,157)	(302,998)	327	186,864	n/a	n/a

Note: Schedule accumulates up to 10 years and will be provided when available.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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**

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

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the 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, the financial statements of the Hancock County Schools Health Benefit Fund, Ohio (the Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Hancock County Schools Health Benefit Fund, Ohio's basic financial statements, and have issued our report thereon dated December 12, 2016, wherein we noted that the Hancock County Schools Health Benefit Fund, Ohio, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hancock County Schools Health Benefit Fund, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund, Ohio's internal control.

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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Schools Health Benefit Fund, Ohio's financial statements are free from 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hancock County Schools Health Benefit Fund, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2016.12.20 13:11:58 -0500

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 12, 2016



Dave Yost • Auditor of State

HANCOCK COUNT 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
FEBRUARY 14, 2017**