HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS COUNCIL

LAKE COUNTY, OHIO

FINANCIAL STATEMENTS

JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

Board of Directors
Health Care Benefits Program of Lake County Schools Council
30 South Park Place #320
Painesville, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Health Care Benefits Program of Lake County Schools Council, Lake County, prepared by S.R. Snodgrass, A.C., for the audit period July 1, 2008 through June 30, 2009. 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 Health Care Benefits Program of Lake County Schools Council is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 9, 2009

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HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
FINANCIAL STATEMENTS

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditor's Report

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
30 South Park Place #320
Painesville, OH 44077

We have audited the accompanying financial statements of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio (the Program) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Program's management. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2009, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 20, 2009 on our consideration of the Program'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 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The Program has not presented the revenue and claims development information that accounting principles generally accepted in the United States of America has determined is necessary to supplement although not required to be part of the basic financial statements.

S.R. Snodgrass A.C.

Mentor, Ohio
October 20, 2009

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HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2009

The following "Discussion & Analysis" of the Health Care Benefits Program of Lake County Schools Council (the Program) fiscal performance provides a general background and review of the Program's related financial activities for the fiscal year ending June 30, 2009. This "Discussion & Analysis" is required with an intended purpose of providing readers a better understanding of the Program's financial performance and fiscal soundness.

Background Related to Fiscal Activities:

The Program is committed to providing its member districts with the advantages of the "consortium" concept. Advantages of membership include a large member buying pool cooperative for health care and prolongated risk.

The Program is an Administrative Service Contract (ASC) program that collects premiums from members and pays all its claims for medical, dental, vision, prescription and life insurance benefits. Simply stated, we are a self-funded but not totally self-administrated program. The consortium had 10 charter members in 1995, added one in 2002 and 2009 and lost one in 2005. The Program remains fiscally solvent and responsive to the needs of its members. A significant $6,000,000 investment of unused reserves validates this fiscal health. The consortium maintains a simplistic approach regarding fiscal matters, owns only data processing equipment and has only two cash accounts. The cash accounts include a checking/wire account for the receipt of member premiums or payout of claims and related health care expenses and an investment account of $6,000,000 of unallocated reserves invested, per a committee of three, by the Lake County Educational Service Center (LCESC) Treasurer.

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements, which include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements. These statements report information about the Program as a whole and about its activities. The Program is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the Program's financial position and reports the resources owned (assets), obligations owed (liabilities), and net assets (the difference between assets and liabilities). The Statement of Revenues, Expenses, and Changes in Net Assets present a summary of how the Program's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statement of Cash Flows provides information about the Program's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The notes to the financial statements provide information that is essential for a full understanding of the financial statements.

Financial Highlights:

The Program's net assets as of June 30, 2009 and 2008 total $ 5,951,553 and $ 3,534,036, respectively. This represents an increase of $ 2,417,517 or 68.4 percent, from 2008 to 2009. The increase in net assets results from an operating gain of $ 2,260,146 and investment income of $ 157,371.

HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2009

Financial Highlights (continued):

Total participants' contributions - operating increased 8 percent, or $ 1,954,628 to $ 25,950,838 in 2009 from $ 23,996,210 in 2008. There was an increase in total revenue in 2009 of $ 1,813,084, or 7 percent, to $ 26,108,209 in 2009 from $ 24,295,125 in 2008. This was due primarily to an increase in claims revenue of $ 1,954,628 from $23,996,210 in 2008 to $ 25,950,838 in 2009. Also investment earnings increased.

Participants' contributions - operating are derived from member contributions for risk-sharing protection, and are estimated and recognized using a variety of actuarial and statistical techniques. These contributions reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, and related administrative expenses for each policy year. In addition, participants, as further detailed in Note 5, to the basic financial statements, provide contributions for the establishment of reserve funds totaling $ 8,706,587 and $ 6,224,711 for the years ended June 30, 2009 and 2008, respectively.

Capital assets remained the same in 2009 and 2008 for it relates to a computer purchased previously.

Administrative expenses increased 19 percent or $ 273,275, to $ 1,677,513 in 2009 from $ 1,404,238 in 2008, due to fees charged for data base administration.

Financial Overview:

Approximately 99 percent in 2009, and in 2008, of the assets consist of cash, cash equivalents, and investments. Approximately 98 percent in 2009, 99 percent in 2008, of total liabilities consist of reserves for claims.

The analysis below presents a comparison of the Program's current year financial position to the prior year:

	2009	2008
Assets		
Cash and cash equivalents	$ 4,547,740	$ 3,380,001
Investments -- other	4,158,848	3,161,995
Interest receivable	13,398	36,247
Accounts receivable	0	0
Prepaid expense	11,950	10,028
Capital assets - net	116	1,159
Total assets	$ 8,732,052	$ 6,589,430
Liabilities		
Benefit obligations	$ 2,728,000	$ 3,039,390
Accounts payable	52,499	16,004
Total liabilities	2,780,499	3,055,394
Net Assets - Unrestricted		
Operating	5,951,437	3,532,877
Invested in capital assets	116	1,159
Total net assets	5,951,553	3,534,036
Total liabilities and net assets	$ 8,732,052	$ 6,589,430

HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2009

Overview of the Financial Statements:

The basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Statement of Net Assets; the Statement of Revenues; Expenses and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

The Statement of Net Assets presents the Program's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as Net Assets.

The Statement of Revenues, Expenses, and Changes in Net Assets present information on the change in net assets (revenues minus expenses) during the fiscal year. Whereas the Statement of Net Assets is a snapshot of the financial position of the Program on June 30, the Statement of Revenues, Expenses, and Changes in Net Assets presents the activities of the Program for the entire fiscal year. Since presented on an accrual basis, the changes in net assets shown do not necessarily coincide with the cash flows. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when the actual cash is received or paid.

The Statement of Cash Flows presents cash provided and used by the Program categorized by operating activities and investing activities. It reconciles the beginning and end-of-year cash balances.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Details are given regarding the Program's organization, accounting policies, cash and investments, commitments and related parties.

The Program is not legally required to adopt a budget. However, management does maintain an administrative budget in order to monitor administrative revenues and expenses. Budget comparisons are not required for the Program and therefore are not presented as required supplementary information in this report.

IBNR obligations represent an estimate of the ultimate cost of claims, including claims that have been reported but not settled and of claims that have been incurred but not reported. Claim payments and obligations can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency and amount of the claims. The obligations are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim obligations are charged to expense in the periods in which they are made.

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS COUNCIL MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS FOR FISCAL YEAR 2009

Overview of the Financial Statements (continued):

The Program's Net Assets

	2009	2008
Total Assets	$ 8,732,052	$ 6,589,430
Total Liabilities	2,780,499	3,055,394
The Program's Net Assets	$ 5,951,553	$ 3,534,036

Changes in Net Assets

	2009	2008
Payments In		
Member Premiums	$ 25,950,838	$ 23,996,210
COBRA/PBM Copes		
Non-Operating Revenues	157,371	298,915
Totals In	$ 26,108,209	$ 24,295,125
Payments Out		
Claims and Premiums	$ 21,627,322	$ 21,856,102
Life Insurance	385,857	380,335
Administrative Fees	1,412,425	1,204,189
Consulting/Legal Fees	255,766	198,199
Wellness Program	8,280	-0-
Depreciation	1,042	1,850
Totals Out	$ 23,690,692	$ 23,640,675
Changes in Net Resources	$ 2,417,517	$ 654,450

Current and Future Trends:

The Program is financially strong, and has a high level of member support and loyalty. In its 12 year history, only one member has left the Program. Membership is loyal due to the Program's track record of providing broad coverage and comprehensive risk management services at stable and competitive costs.

The risks to the Program are primarily external in nature, and are due to the reinsurance market, and the economic and legal climates in Ohio. With the Program's $ 6,000,000 self-insured retention, Program members are less vulnerable to the pricing cycles of the commercial insurance market.

Current and Future Trends (continued):

The other major risk to the Program is the possibility of extraordinary or unexpected claims. In recent years, the Program has experienced unprecedented adverse claims development. Fortunately, the financial strength of the Program makes it possible for the Program to sustain such circumstances. The Program's Management has been aware of and prepared for claims contingencies by remaining conservative in investment and other financial decisions during better times.

Contacting the Program's Financial Management

This financial report is designed to provide our citizen taxpayers and participants with a general overview of the Program's finances and to show the Program's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Mrs. Sherri Samac, Treasurer for the Health Care Benefits Program of Lake County Schools Council, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents	$ 4,547,740
Investments - other	4,158,848
Interest receivable - investments	13,398
Prepaid expenses	11,950
Total current assets	8,731,936
Capital assets - net	116
Total assets	$ 8,732,052
LIABILITIES AND NET ASSETS	
Current liabilities:	
Benefit obligations	$ 2,728,000
Accounts payable	52,499
Total current liabilities	2,780,499
Net assets:	
Unrestricted	
Operating	5,951,437
Invested in capital assets	116
Total net assets	5,951,553
Total liabilities and net assets	$ 8,732,052

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

HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Operating revenues:	
Participants' contributions	$ 25,950,838
Operating expenses:	
Benefits paid for participants:	
Medical and dental self-funded claims	16,668,569
Prescription drug self-funded claims	4,638,649
HMO insurance premiums	153,563
Life insurance premiums	385,857
Vision insurance premiums	152,530
Carrier stop loss premiums	14,011
Total benefits paid for participants	22,013,179
Administrative expenses:	
Third party administration fees	1,240,173
Consulting fees	239,807
Program administration fees	162,870
Cobraserve fees	9,382
Miscellaneous fees	15,959
Wellness program	8,280
Depreciation	1,042
Total operating expenses	23,690,692
Operating income	2,260,146
Non-operating revenues:	
Investment income	171,841
Unrealized loss on investments	(5,759)
Realized gain on investments	6,945
Investment fees	(15,656)
Total non-operating revenues	157,371
Change in net assets	2,417,517
Net assets, beginning of year	3,534,036
Net assets, end of year	$ 5,951,553

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

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:	
Cash received from participants' contributions	$ 25,950,838
Cash paid for participants' benefits	(22,324,569)
Cash paid for administrative expenses	(1,641,898)
Net cash provided by operating activities	1,984,371
Cash flows from investing activities:	
Proceeds from maturity of investments	6,109,243
Purchase of investments	(7,104,909)
Investment income received	194,690
Investment expense	(15,656)
Net cash used by investing activities	(816,632)
Net increase in cash	1,167,739
Cash and cash equivalents, beginning of year	3,380,001
Cash and cash equivalents, end of year	$ 4,547,740

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

HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 2,260,146
Adustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,042
Changes in operating assets and liabilities:	
Prepaid expense	(1,922)
Benefits obligations	(311,390)
Accounts payable	36,495
Total adjustments	(275,775)
Net cash provided by operating activities	$ 1,984,371

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

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS COUNCIL NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. DESCRIPTION OF THE ENTITY

The following description of the Health Care Benefits Program (the Program) of Lake County Schools Council (the Council) provides only general information of both the Program and the Council. Participants should refer to the Program and Council Agreements for a more complete description of their provisions.

General – The Council was established on December 6, 1994, formed by the Boards of Education of eleven school districts in northeast Ohio, for the purpose of undertaking a joint program for the provision of health care benefits, undertaking other cooperative programs from time to time, and fostering cooperation among those school districts in all areas of educational service. On October 3, 1995, the Council was formed and operates as a legally separate entity as provided under Ohio Revised Code Chapter 167. In addition, the Council maintains By-laws and each participating member signs an Agreement.

The current eleven members are Auburn Vocational School District, Fairport Harbor Exempted Village School District, Lake County Educational Service Center, Kirtland Local School District, Madison Local School District, Painesville City School District, Riverside Local School District, Perry Local School District, Wickliffe City School District, Lakeland Community College and Richmond Heights School District.

The Health Care Benefits Program is currently the only program offered by the Council to its members. Organizations that are not members of the Council can contract with the Council to participate in the Program.

Board of Directors – The Assembly is the legislative body of the Council. The Assembly and the Board of Directors are one and the same body so that the Assembly is both the legislative and governing body of the Council. The Assembly elects at its annual meeting the officers who consist of Chairman, Vice-Chairman, and Recording Secretary, all of which serve until the next annual meeting. The board of education of each Member appoints its Superintendent or designee, to be its representative on the Council's Assembly. All of the authority of the Council is exercised by or under the direction of the Board of Directors, the governing body. The Assembly sets and approves all benefit programs to be offered by or through the Program, and all policies and other contracts are accepted or entered into by the Board of Directors. The Board of Directors sets all premiums and other amounts to be paid by the Members, and the Board of Directors has the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

The Board of Directors has the full powers to manage and conduct affairs of the Program between meetings of the Assembly. The Board of Directors is specifically authorized and directed to review and decide all appeals and challenges by employees, their eligible dependents and designated beneficiaries of adverse determinations by the Plan Administrator or care or coverage under benefit programs offered by the Program. The Assembly may ratify any action authorized or taken by the Board or may rescind and overrule any such action.

Fiscal Agent – The Treasurer serves as the Fiscal Agent of the Program and is responsible for administering the financial transactions of the Program. The Fiscal Agent carries out the responsibilities of the Program Fund, enters into contracts on behalf of the Program as authorized by the Directors and carries out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Lake County Educational Service Center (LCESC), Painesville, Ohio provides fiscal agent and treasury services and the LCESC Treasurer serves as the Council Treasurer.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. DESCRIPTION OF THE ENTITY (CONTINUED)

Benefits – Member contributions are used to provide and/or purchase health, dental, life, and/or other insurance benefits as provided for in the Program Agreement and as established by law. The Assembly determines the insurance benefits to be provided by or through the Program. Benefit selections may vary among the Program Members for any type of benefit program. The Board of Directors determines, at their discretion, which insurance carriers and policies to utilize to provide benefits pursuant to the Program Agreement.

Enrollment by Members – Each Member decides which benefit program(s) offered by or through the Program shall be extended to its employees. Upon joining the Council, each member can participate in the Health Care Benefit Program. Organizations that are not Members of the Council can contract with the Council to participate in the Program. The Richmond Heights School District became a member in 2009.

Program Fund – The Program Fund consists of all payments made to the Fiscal Agent in accordance with the Program Agreement, policy dividends or rate refunds (whether received by the Program or left with the insurance carriers to accumulate with interest), investments made by the Fiscal Agent and income there from, and any other money or property which shall come into the hands of the Program in connection with the administration of the Program.

The Fiscal Agent may use the Program Fund for purposes such as but not limited to:

1. Paying all expenses which the Directors consider necessary in establishing and administering the Program;
2. Paying premiums of the Program's policies;
3. Making investments in accordance with the Agreement;
4. Making refunds to Program Members; and
5. Providing and/or purchase health insurance, life insurance, dental insurance, and/or other insurance benefits.

Investments – The Investment Committee, on behalf of the Council, makes such investments as it may determine in its discretion, provided that such investments conform with investment policy adopted by the Program and limited to investments permitted under Chapter 135 of the Ohio Revised Code for the public monies of school districts.

Termination/Withdrawal of a Council Member – It is the express intention of the Council Members that the Council Agreement and the Council shall continue for an indefinite term, but may be terminated as provided in the Council Agreement. Any Council Member wishing to withdraw from participation in the Council or the Program shall notify the Board of Directors on or before October 15 preceding the first day of the fiscal year the Member will withdraw. Specifics governing the withdrawal of a Program Member and the run out of all claims for such Program Member are addressed in Section 11 of the Program Agreement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. DESCRIPTION OF THE ENTITY (CONTINUED)

Contributions – Each Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such Member, and such contributions are included in the payments from such Member to the Fiscal Agent for the benefit program. Contributions are to be submitted by each Member, to the Fiscal Agent, required under the terms of the Program Agreement and any benefit program in which such Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such Member is enrolled. All general administrative costs incurred by the Program that are not covered by the premium payments shall be shared by the Program Members as approved by the Directors.

2. SUMMARY OF ACCOUNTING POLICIES

Reporting Entity – A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the Program are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Program. For the Health Care Benefits Program of Lake County Schools Council, this consists of a single enterprise fund.

Component units are legally separate organizations for which the Program is financially accountable. The Program is financially accountable for an organization if the organization appoints a voting majority of the organization's governing board and (1) the Program is able to significantly influence the programs or services performed or provided by the organization; or (2) the Program is legally entitled to or can otherwise access the organization's resources; the Program is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Program is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Program in that the Program approves the budget, the issuance of debt or the levying of taxes. The Program has no component units.

Basis of Presentation – The financial statements of the Program have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations unless those pronouncements conflict with or contradict GASB pronouncements.

The Program uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balance set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Capital Assets - Capital assets are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Capital assets consist of a computer system and are being depreciated over five years. Depreciation expense for the current year was $ 1,042.

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Measurement Focus – The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Program are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Program meets the cash flow needs of its enterprise activity.

Basis of Accounting – The Program's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses recognized when incurred. Specifically, contributions from participants are recognized as income when due from Program members, and benefits paid for participants are recognized when incurred.

Cash Equivalents and Investments – The Program's policy is to treat its investments with maturities of 90 days or less as cash equivalents.

Investments were limited to federal agency obligations. Investments are reported at fair value or at amortized cost, which approximates fair value. Investment income includes interest and dividends and realized and unrealized gains and losses.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Program or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Association had no restricted net assets in 2009.

Operating Revenues and Expenses – Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Program, these revenues are participants' contributions. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

Estimates – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. While actual results could differ from those estimated, management does not expect those differences to be significant to the financial statements.

Extraordinary and Special Items – Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Program's Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

Subsequent Events – The program assessed events occurring subsequent to June 30, 2009 through October 20, 2009 for potential recognition and disclosure in the consolidated financial statements. No events were identified that would require adjustment to or disclosure in the financial statements.

3. DEPOSITS AND INVESTMENTS

Deposits – Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The Program's practice is to place deposits with commercial banks within its service area. At June 30, 2009, the carrying amount of the Program's deposits including money market funds was $ 4,547,740 which $ 250,000 was covered by Federal depository insurance.

Protection of the remainder of the Program'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.

Investments – The Program has adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks.

Investments are reported at fair value. As of June 30, 2009, the Program had the following investments:

		Maturity		Fair
	<1	1 -2	3-5	Value
Federal Home Loan Mortgage Corporation	$ -	$ 201,230	$ 249,805	$ 451,035
Federal Home Loan Bank notes	250,860	-	-	250,860
Federal National Mortgage Association	-	501,720	1,404,686	1,906,406
Federal Farm Credit Bank	-	-	250,547	250,547
Certificates of Deposit	850,000	450,000	-	1,300,000
Total	$ 1,100,860	$ 1,152,950	$ 1,905,038	$ 4,158,848

Interest Rate Risk - As a means of limiting its exposure to fair value losses caused by rising interest rates, the Program's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Program's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

The Program's investment policy requires that investments made must mature within five years, unless they are matched to a separate obligation or debt of the Program. The purpose of the investments is to maximize the returns on the Program's excess cash balances consistent with safety of these monies and with the desired liquidity of the investments.

Credit Risk - The Federal Home Loan Bank Bonds, the Federal Home Loan Mortgage Corporation Bonds, the Federal National Mortgage Association Bonds, and the Federal Farm Credit Bank Bonds all carry a rating of AAA by Moody's and Standard and Poor's and Fitch. The Program's investment policy limits investments to those authorized by State statute.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Program's name. The Program 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.

4. BENEFIT OBLIGATIONS

GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, and GASB Statement No. 30, Risk Financing Omnibus – an amendment of GASB Statement No. 10, establish accounting and financial reporting standards for insurance related activities of state and local governmental entities, and requires that actuarial techniques be utilized to estimate any claims liabilities, including those for claims incurred but not reported. The Program has recorded benefit obligations as of June 30, 2009 totaling $ 2,728,000, which includes reported claims not yet paid, claims incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. This amount is actuarially determined using historical trends in the lag between the date a claim is incurred and paid.

Changes in the Program's benefit obligations amount was as follows:

	2009	2008
Balance at beginning of the fiscal year	$ 3,039,390	$ 2,983,089
Current year claims	21,490,940	21,459,857
Claims paid	(21,802,330)	(21,403,556)
Balance at end of the fiscal year	$ 2,728,000	$ 3,039,390

5. CONTINGENCY

The Council is involved in various claims whose effects are determined as immaterial.

6. RISK MANAGEMENT

The Council is a jointly governed organization, which acts as a government risk pool for health insurance for its 11 members.

The Council employs the services of an outside consultant (Findley Davies) to assist them in administering the Program. The Council also uses Medical Mutual of Ohio, Caremark, Inc., and Express Scripts, Inc. as their third party administrators.

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Council or any property of the Council. The rights and interest of employees and persons claiming by or through employees shall be limited to benefits offered by or through the Council in accordance with the Program Agreement. The Council purchases or otherwise provides for the benefit of itself, the Directors and/or the Fiscal Agent such liability insurance with such limits of coverage deemed necessary and as approved by the Board of Directors. A specific stop loss coverage of $ 500,000 is in effect.

Any Program Member who withdraws from the Council pursuant to the Program Agreement has no claim to the Council's assets.

It is not necessary for each member district of the Council to prepare a Governmental Accounting Standards Board (GASB) report. The Council holds all reserves including Incurred But Not Reported (IBNR), Shock, Stabilization, and Fluctuation reserves. However, these reserves are allocated to members on a capitated basis for accounting purposes.

6. RISK MANAGEMENT (CONTINUED)

The Health Care Benefits Program of Lake County Schools Council is self insured for member district employee health insurance claims but maintains aggregate stop loss insurance with Medical Mutual of Ohio. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided by the Council's consultant (Findley Davies). An estimate June 30, 2009 loss reserves estimated by the Council's actuary are as follows:

IBNR Reserve	$ 2,728,000
Fluctuation Reserve	5,978,587
Total Reserve Funds	$ 8,706,587

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	June 30, 2008	Additions	Deletions	June 30, 2009
Computers	$ 9,249	$ -	$ -	$ 9,249
Depreciation	(8,091)	(1,042)	-	(9,133)
Computers - Net	$ 1,158	$ (1,042)	$ -	$ 116

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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*

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
30 South Park Place #320
Painesville, OH 44077

We have audited the financial statements of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio (the Program) as of and for the year ended June 30, 2009, which collectively comprise the Program's basic financial statements and have issued our report thereon dated October 20, 2009. Supplemental information and disclosure of revenue and claims development information was omitted. 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 the Health Care Benefits Program of Lake County Schools Council'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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program'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 in a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Care Benefits Program of Lake County Schools Council'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 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*.

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We noted certain additional matters that we reported to management of Health Care Benefits Program of Lake County Schools Council in a separate letter dated October 20, 2009.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and the Auditor of State, Mary Taylor, and is not intended to be and should not be used by anyone other than those specified parties.

S. R. Snodgrass A.C.

Mentor, Ohio
October 20, 2009

Mary Taylor, CPA
Auditor of State

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS COUNCIL

LAKE 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
DECEMBER 22, 2009

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