

Hancock County Schools Health Benefit Fund
Hancock County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
September 30, 2013



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, 2012 through September 30, 2013. 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

March 24, 2014

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

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February 25, 2014

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Hancock County Schools Health Benefit Fund, Hancock County, Ohio (the "Fund"), as of and for the year ended September 30, 2013, 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 preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider 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 to the extent needed to opine on the effectiveness of the Fund's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support 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 Hancock County Schools Health Benefit Fund, Hancock County, Ohio, as of September 30, 2013, and the changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Fund's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position and changes in net position. This information provides additional analysis and is not a required part of the basic financial statements.

The Loss Development Information also presents additional analysis as required by the *Governmental Accounting Standards Board* and is also a required part of the financial statements.

These tables and the Loss Development Information are management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Loss Development Information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Loss Development Information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Loss Development Information are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Fund's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2013

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, 2013. 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 2013 are as follows:

- Total operating receipts were \$7,996,906, representing contributions from nine Fund members during the period from October 1, 2012 through September 30, 2013.
- Total non-operating receipts were \$10,635 for the fiscal year.
- Total disbursements were \$7,950,869, with claims payments representing \$7,039,087, or 89 percent, insurance premium for coverage representing \$264,062, or 3 percent and administrative and professional disbursements representing 8 percent.

Using these 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 2013?" 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 their related receipts (such as accounts receivable) and liabilities 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 SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2013

The table below provides a summary of the Fund's net position at September 30, 2013 and 2012.

(Table 1)
Financial Analysis

Net Position – Cash Basis

	2013	2012
Assets		
Equity in pooled cash & investments	\$ 3,160,075	\$ 3,103,403
Total assets	\$ 3,160,075	\$ 3,103,403
Net Position		
Unrestricted	\$ 3,160,075	\$ 3,103,403
Total net position	\$ 3,160,075	\$ 3,103,403

Over time, net position can serve as a useful indicator of a government's financial position. At September 30, 2013, the Fund's net position totaled \$3,160,075.

The table below shows the change in net position for the fiscal years ending September 30, 2013 as compared to September 30, 2012. This will enable the reader to draw further conclusions about the Fund's financial status and possibly project future problems.

(Table 2)
Changes in Net Position - Cash Basis

	2013	2012
Total operating receipts	\$ 7,996,906	\$ 8,575,910
Total operating disbursements	7,950,869	7,916,986
Operating income	46,037	658,924
Total non-operating receipts	10,635	4,705
Increase in net position	\$ 56,672	\$ 663,629

From fiscal year 2012 to 2013, net position increased \$56,672. This is down from fiscal year 2012, primarily due to a decrease in total operating receipts due to timing issues of premiums from member school districts.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2013

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

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

**STATEMENT OF NET POSITION - CASH BASIS
SEPTEMBER 30, 2013**

ASSETS:

Equity in pooled cash and investments

\$ 3,160,075

TOTAL ASSETS

\$ 3,160,075

NET POSITION:

Unrestricted

\$ 3,160,075

TOTAL NET POSITION

\$ 3,160,075

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN
NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

	2013
OPERATING CASH RECEIPTS:	
Contributions from members	\$ 7,784,904
Insurance rebates and reimbursements	212,002
	7,996,906
OPERATING CASH DISBURSEMENTS:	
Medical, dental and vision claim payments	7,039,087
Administrative fees	565,316
Insurance Premium for Coverages	264,062
Professional and consulting fees	70,484
Investment fees	11,920
	7,950,869
Total operating cash disbursements	
Operating income	46,037
NON-OPERATING CASH RECEIPTS:	
Investment income	10,635
	10,635
Total non-operating cash receipts	
Change in net position	56,672
NET POSITION, beginning of year	3,103,403
NET POSITION, end of year	\$ 3,160,075

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, 2013

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 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 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.

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.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2013

B. Basis of Presentation

For the fiscal year ended September 30, 2013, 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, disbursements and change in net position. The statement includes adequate disclosure of material matters, in accordance with the basis of accounting described in preceding paragraphs.

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 it is incorporated in the bylaws that a budget should be prepared along with the other budgets prepared by the Hancock County Educational Service Center.

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, 2013, the Fund has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,” GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” and GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 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, 2013

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Fund.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Fund.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

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.

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, 2013.

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;

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2013

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.

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, 2013, the carrying amount of the Fund's deposits and the bank balance was \$141,381, which was covered fully by the Federal Deposit Insurance Corporation (FDIC).

Investments

As of September 30, 2013, the Fund had the following investments:

		Maturities (at Cost)	
	Cost	< 1 Year	1 - 5 Years
Federated Mutual Funds	\$ 719,824	\$ 719,824	\$ 0
Federal Home Loan Bank	500,238	500,238	0
Federal Home Loan Mortgage	924,440	425,140	499,300
Federal National Mortgage	874,192	0	874,192
	\$ 3,018,694	\$ 1,645,202	\$ 1,373,492

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2013

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."

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, Federal Home Loan Bank Bonds, and Federal Home Loan Mortgage Bonds, carry a rating of Aaa by Moody's. The money market account held with First Federal Bank 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. At September 30, 2013, the investments in Federated Mutual Funds account for 24%, Federal National Mortgage Bonds account for 29%, Federal Home Loan Mortgage Bonds account for 31% and Federal Home Loan Bank Bonds account for 16% of the Fund's total investments.

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 re-insurers, although it does not discharge their primary liability.

HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND
Hancock County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2013

NOTE 5 – ACTUARIAL REPORT

Actuarial valuations of claim liability and funded status were performed for the year ended September 30, 2013. 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, 2013 and 2012 is as follows:

	2013	2012
Cash and investments	\$ 3,160,075	\$ 3,103,403
Actuarial liability	1,649,889	2,083,796
Net surplus of cash reserves	\$ 1,510,186	\$ 1,019,607

NOTE 6 – CONTRACTED SERVICES

During fiscal year 2013, the Fund contracted with Neace Lukens 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 – 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 fiscal year 2013, the Loss Reserve decreased \$433,907 to \$1,649,889. The estimated expenses that have been incurred but not recorded represent 25.0 percent of the incurred and paid claims for fiscal year 2013. Total expenses for the year ended September 30, 2013 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 2013 is \$1,510,186.

The total reserve for claim loss for fiscal year 2013, including the loss reserve and fluctuation reserve is \$3,160,075.

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
2012	\$1,312,200	\$7,695,827	\$6,924,231	\$2,083,796
2013	\$2,083,796	\$6,605,180	\$7,039,087	\$1,649,889

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

	<u>10/1/2008 - 9/30/2009</u>	<u>10/1/2009 - 9/30/2010</u>	<u>10/1/2010 - 9/30/2011</u>	<u>10/1/2011 - 9/30/2012</u>	<u>10/1/2012 - 9/30/2013</u>
Premiums and Investment revenue:					
Earned	7,900,906	8,295,710	8,360,161	8,398,035	7,795,539
Ceded	(843,350)	(825,946)	(837,688)	(968,857)	(886,262)
Net Earned	<u>7,057,556</u>	<u>7,469,764</u>	<u>7,522,473</u>	<u>7,429,178</u>	<u>6,909,277</u>
Unallocated Expenses	-	-	-		
Estimated losses and Expenses, end of accident year:					
Incurred	1,376,414	1,199,923	1,312,200	2,083,796	1,649,889
Ceded	-	-	-	-	-
Net incurred	<u>1,376,414</u>	<u>1,199,923</u>	<u>1,312,200</u>	<u>1,531,793</u>	<u>1,681,962</u>
Net Paid Cumulative as of:					
End of accident year	6,524,578	6,697,666	6,638,508	7,211,040	6,540,278
One year later	607,645	362,303	521,882	539,115	
Two years later	8,456	3,909	12,422		
Re-estimated ceded losses and expenses	-	-	-	-	-
Re-estimated net incurred losses and expenses:					
End of accident year	6,524,578	6,697,666	6,638,508	7,211,040	6,540,278
One year later	7,132,223	7,059,969	7,160,390	7,750,155	
Two years later	7,140,679	7,063,878	7,172,812		

February 25, 2014

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

**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, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Hancock County Schools Health Benefit Fund, Hancock County, Ohio (the "Fund") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 25, 2014, wherein we noted the Fund uses a comprehensive accounting basis other than general accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Fund's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Fund's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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Compliance and Other Matters

As part of reasonably assuring whether the Fund's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 we must report under *Government Auditing Standards*.

Purpose of this Report

The report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

HANCOCK COUNTY 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
APRIL 3, 2014