



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SCHOOL EMPLOYEES' INSURANCE CONSORTIUM
ROSS COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the accompanying financial statements of the School Employees Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the years ended June 30, 2002, 2001, and 2000. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Consortium prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the School Employees Insurance Consortium, Ross County, Ohio as of June 30, 2002, 2001, and 2000, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2002 on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2002. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of that audit.

This report is intended solely for the information and use of the audit committee, management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

JIM PETRO
Auditor of State

October 4, 2002

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH BALANCE
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000**

	2002	2001	2000
Cash Receipts:			
Charges for Services	\$16,208,191	\$12,842,924	\$11,176,750
Earnings on Investments	10,471	11,391	10,225
Miscellaneous Receipts	<u>1,056,920</u>	<u>785,149</u>	<u>286,918</u>
Total Cash Receipts	17,275,582	13,639,464	11,473,893
 Cash Disbursements:			
Re-Insurance Payments and Administrative Fees	1,562,884	1,195,548	1,159,382
Claims Payments	<u>15,832,616</u>	<u>12,278,886</u>	<u>10,368,238</u>
Total Cash Disbursements	<u>17,395,500</u>	<u>13,474,434</u>	<u>11,527,620</u>
Total Cash Receipts Over (Under) Cash Disbursements	(119,918)	165,030	(53,727)
 Beginning Cash Balance	<u>367,083</u>	<u>202,053</u>	<u>255,780</u>
 Ending Cash Balance	<u><u>\$247,165</u></u>	<u><u>\$367,083</u></u>	<u><u>\$202,053</u></u>

The notes to the financial statements are an integral part of this statement.

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Ross County School Employees Insurance Consortium (the Consortium), is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The Consortium administers a cooperative health insurance program. The Consortium 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.

The Board of Directors is the legislative and managerial body of the Consortium. The Board of Directors is composed of a representative from member school districts who has been appointed by their respective school district (normally the Superintendent). At June 30, 2002, fifteen school districts were participating in the Consortium. One school district rescinded its membership with the Consortium in December 2001.

The Board of Directors appoints a member district as the Fiscal Agent for the Consortium. The Treasurer of the Fiscal Agent shall be the Treasurer of the Consortium. The Westfall Local School District Treasurer is appointed Fiscal Agent for the Consortium.

The Consortium's management believes these financial statements present all activities for which the Consortium is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

All revenue received by the Consortium is placed in one of two bank accounts. Monies are maintained in these accounts or temporarily used to purchase short term investments. Investments were limited to a Repurchase Agreement. Nonparticipating investment contracts such as repurchase agreements and negotiable certificates of deposit are reported at cost.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	2002	2001	2000
Demand deposits	\$117,836	\$7,104	\$62,013
Repurchase agreement	129,329	359,979	140,040
Total deposits and investments	\$247,165	\$367,083	\$202,053

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation (FDIC) or (2) collateralized by the financial institution's public entity deposit pool.

Investments: Westfall Local School District's agent holds securities collateralizing the repurchase agreements. The securities are not in the District's name.

3. RISK MANAGEMENT

The Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health and dental insurance program. The Consortium, which is open to any Board of Education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both for individual claims (\$100,000) and in the pools aggregate (\$14,523,214).

Each member of the Consortium is obligated to pay a fee based on an estimate of the member's share of the Consortium costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health and dental insurance premiums, and their proportionate share of the administrative cost of the Consortium. The actual balance of each member school's account is determined on a triennial basis. If a member is in a deficit position, one-half of the deficit is due immediately or can be paid over the next three years including interest of 10 percent.

Member schools may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. The obligation for the payment of any negative balance in a member's account and the remaining claims of any of its eligible members is the responsibility of each individual school upon withdrawal from the Consortium.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002, 2001 AND 2000
(Continued)**

4. CLAIMS LIABILITY

The reported but not paid and incurred but not reported (IBNR) claims under the health plan at June 30 (the liability) are used by the Consortium to help determine the rates to charge member Districts. The liability as of June 30 follows:

Year	Claims Reported But Not Yet Paid at June 30	Estimated Claims Incurred But Not Reported at June 30	Total Liability At June 30
2002	\$411,557	\$2,018,108	\$2,429,665
2001	\$2,065,556	\$803,935	\$2,869,491
2000	\$1,738,446	\$976,518	\$2,714,964

The trend data above is useful in assessing the adequacy of rates the Consortium charges its members. An increasing liability indicates current rates are not sufficient to cover liabilities that members have incurred. The IBNR at June 30, 2002, represents "run out" claims through September 14, 2002. (See Note 6)

The Consortium did not use an actuary to estimate the liability or determine if an adequate reserve has been established by its member districts.

5. CASH POSITION OF MEMBER SCHOOL DISTRICTS

At June 30, members of the Consortium had the following respective cash position:

Member District	2002	2001	2000
Adena LSD	(\$114,866)	(\$132,840)	(\$53,086)
Amanda-Clearcreek LSD	0	141,184	236,460
Blanchester LSD	3,163	2,945	(431,660)
Bright LSD	(258,721)	(214,120)	(34,850)
Circleville CSD	9,713	58,106	24,941
Huntington LSD	260,682	351,404	303,743
Logan Elm LSD	(77,152)	56,099	91,480
Lynchburg-Clay LSD	(108,840)	(222,733)	(72,742)
Madison Plains LSD	282,872	86,470	(1,398)
Paint Valley LSD	(45,079)	(57,913)	68,479
Pickaway-Ross JVSD	(18,026)	(223,447)	(452,557)
Ross-Pike ESD	329,791	335,110	237,610
Scioto Valley LSD	(104,495)	48,681	11,235
South Point LSD	(683,142)	(1,083,490)	(936,614)
Teays Valley LSD	11,240	34,203	155,533
Union Scioto LSD	451,655	535,637	575,876
Westfall LSD	273,505	446,443	273,747
Zane Trace LSD	8,320	189,269	201,172
Total with Districts	<u>\$220,620</u>	<u>\$351,008</u>	<u>\$197,369</u>
Miscellaneous Fund	\$26,545	\$16,075	\$4,684
Consortium Cash Balance	<u><u>\$247,165</u></u>	<u><u>\$367,083</u></u>	<u><u>\$202,053</u></u>

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002, 2001 AND 2000
(Continued)**

6. CLAIMS INCURRED BUT NOT PAID

The Consortium's current cash position does not permit claims to be paid when presented. June 2002 billed claims, (See Note 4) have not been paid as of June 30, 2002.

The Consortium passed resolutions and developed new plans to enable it to pay claims timely.

1. In September 2001, the Board of Directors passed a resolution and agreed to have all Districts pay a 13th payment in October 2001.
2. Several member districts' triennial reconciliations occur on July 1, 2002. Those member districts in a negative fiscal position, as of June 30, 2002, are required to reimburse the Consortium half of the experienced deficit. The Consortium received payments from Circleville LSD, Lynchburg Clay LSD and Bright LSD.
3. The Consortium accepted one member's withdrawal from the Consortium effective December 31, 2001. The withdrawal was from Amanda Clearcreek Local School District, which paid its liability as of June 30, 2002 and its run out claims as they become due. The Consortium continues to collect money from South Point LSD in accordance to the agreement made between the District and the Consortium. As of June 30, 2002, South Point LSD has made all monetary payments required under this agreement.
4. The Board of Directors passed a resolution to change third party administrators. Effective July 1, 2002, Klais and Company became the third party administrator. The Board also approved new funding rates effective July 1, 2002 which are determined actuarially.
5. The Board of Directors passed a resolution to have all Districts with negative balances to resolve these balances by May 10, 2002, if the District had the financial means to do so. In accordance to this resolution, the Consortium collected a total of approximately \$950,000 from Pickaway-Ross JVSD, Teays Valley LSD, Logan Elm LSD, Circleville LSD, and Paint Valley LSD.

The Board of Directors believes these events will enhance the Consortium's ability to pay claims when they become due.

7. SUBSEQUENT EVENTS

The Board of Directors passed a resolution to name Klais and Company as the Consortium's third party administrator beginning July 1, 2002.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the accompanying financial statements of the School Employees' Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item number 2002-60771-001. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated October 4, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management in a separate letter dated October 4, 2002.

School Employees Insurance Consortium
Ross County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

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JIM PETRO
Auditor of State

October 4, 2002

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2002-60771-001
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Establishment of a Reserve (Liability)

Ohio Rev. Code Section 9.833 requires individual, self-insured governments or joint self-insured health-care programs to calculate amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year-end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year.

This report is not filed with any office, including the Auditor of State; however, it should be retained by the government and made available upon request. An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries. Reserved means liabilities measured in accordance with accepted actuarial principles.

The Consortium has not established a reserve for the health care benefit liability, for the years ended June 30, 2002, 2001, and 2000.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-60771-001	Revised Code 135.12 – Depository Agreement	Fully Corrected	
2001-60771-002	Revised Code 9.833 – Establishment of a Reserve	Not Corrected	Reissued as material noncompliance as Finding No. 2002-60771-001



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SCHOOL EMPLOYEES INSURANCE CONSORTIUM

ROSS 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 3, 2002**