HURON-ERIE
SCHOOL EMPLOYEE
INSURANCE ASSOCIATION

June 30, 2006

FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

BROCKMAN, COATS, GEDELIAN & CO.

certified public accountants and consultants

Mary Taylor, CPA
Auditor of State

Board of Trustees
Huron-Erie School Employee Insurance Association
2900 Columbus Avenue
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Huron-Erie School Employee Insurance Association, Erie County, prepared by Brockman, Coats, Gedelian & Co., for the audit period May 1, 2005 through June 30, 2006. 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 Huron-Erie School Employee Insurance Association is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 5, 2008

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HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

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BROCKMAN, COATS, GEDELIAN & CO.
certified public accountants and consultants
1735 Merriman Road, Akron, Ohio 44313-9007
(330) 864-6661 FAX: (330) 864-6918

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of the Board of Trustees of
Huron-Erie School Employee Insurance Association:

We have audited the accompanying financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of and for the 14 months ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Association'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 Huron-Erie School Employee Insurance Association as of June 30, 2006, and the changes in financial position and cash flows for the 14 months then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Association adopted Statement of Governmental Accounting Standards No. 40 as of and for the 14 months ended June 30, 2006.

The Association has not presented the required supplementary information on revenue and claims development 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007 on our consideration of Huron-Erie School Employee Insurance Association'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.

The management's discussion and analysis on pages 3 through 8 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brockman, Coats, Gedelian & Co.

December 10, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
for the 14 months ended June 30, 2006

The discussion and analysis of Huron-Erie School Employee Insurance Association's (the "Association") financial performance provides an overall review of the Association's financial activities for the 14 months ended June 30, 2006. The intent of this discussion and analysis is to look at the Association's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Association's financial performance.

Financial Highlights

Key financial highlights for 14 months ended June 30, 2006 are as follows:

- In total, net assets decreased $141,094 which represents a 3.5% decrease from fiscal year 2005.
- Participants' contributions accounted for $25,527,378 in revenue or 98.8% of all revenues. Interest income of $312,983 accounted for the remaining revenue.
- The Association incurred expenses totaling $25,981,455, of which $24,042,246 represented benefits paid for participants. Participants' contributions received during fiscal 2006 were not adequate to support the benefits provided and the related administrative costs incurred.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Association'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 Association as a whole and about its activities. The Association 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 Association'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 presents a summary of how the Association'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 Association'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 Analysis of the Association's Financial Position and Results of Operations

The Financial Statement Trend Analysis that follows provides a summary of the Association's financial position and operations for the years 2006, 2005, 2004, 2003, and 2002.

The Association implemented Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures – for State and Local Governments* in 2006. This is the first year for reporting in this manner, but the Association has been reporting using the accrual basis of accounting for many years so a comparison with prior years is shown.

Debt Administration

At June 30, 2006, the Association had no bonded debt outstanding.

Current Financial Related Activities

Overall, the Association is strong financially. As the preceding information shows, the Association relies heavily upon participant contributions. The Executive Board recommended and the Governing Board approved a five (5) percent increase in participant contributions for fiscal year 2006. This additional revenue, along with the Association's cash balance, will provide the Association with the necessary funds to meet obligations in fiscal year 2007.

As with all insurance consortiums, the Association is faced with continuing increases in health costs. The Governing Board meets on a quarterly basis and employs consultants who report on the trend in all health related costs. The Association is ever vigilant to keep the Association's long term fiscal health at a level to sustain the continuation of this insurance consortium.

In conclusion, the Association has committed itself to financial excellence for many years, and will continue to be innovative and a leader in providing affordable health insurance to its participants. These financial statements represent the continued effort to keep our residents informed of the excellent use of their tax dollars for the health insurance needed by employees.

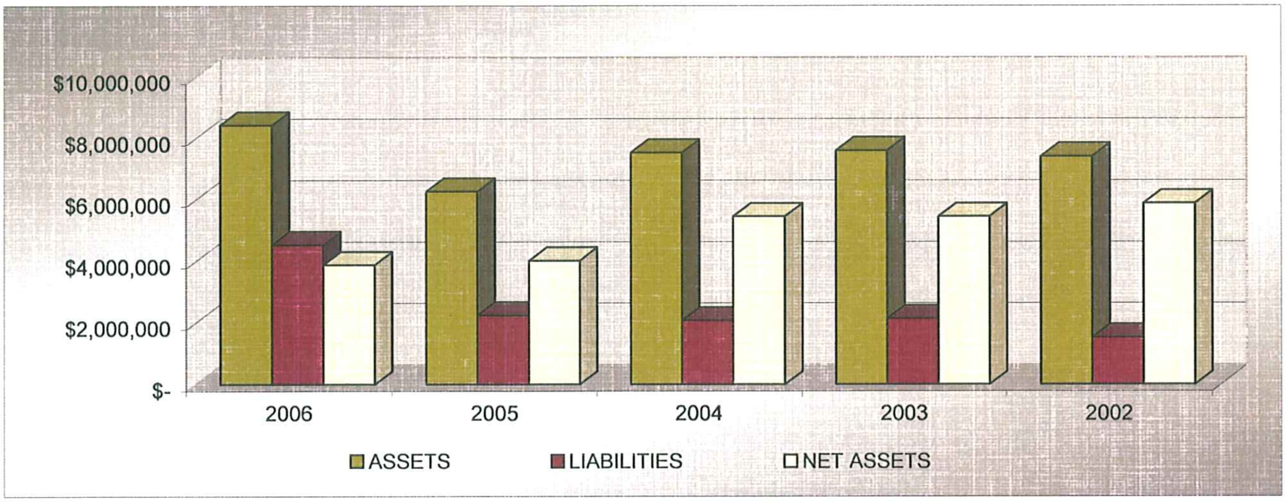
Contacting the Association's Financial Management

This financial report is designed to provide our citizen taxpayers and participants with a general overview of the Association's finances and to show the Association's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Dennis Doughty, Chairman of the Executive Committee of the Association, Willard City Schools, 955 S. Main Street, PO Box 150, Willard, OH 44890-9598.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

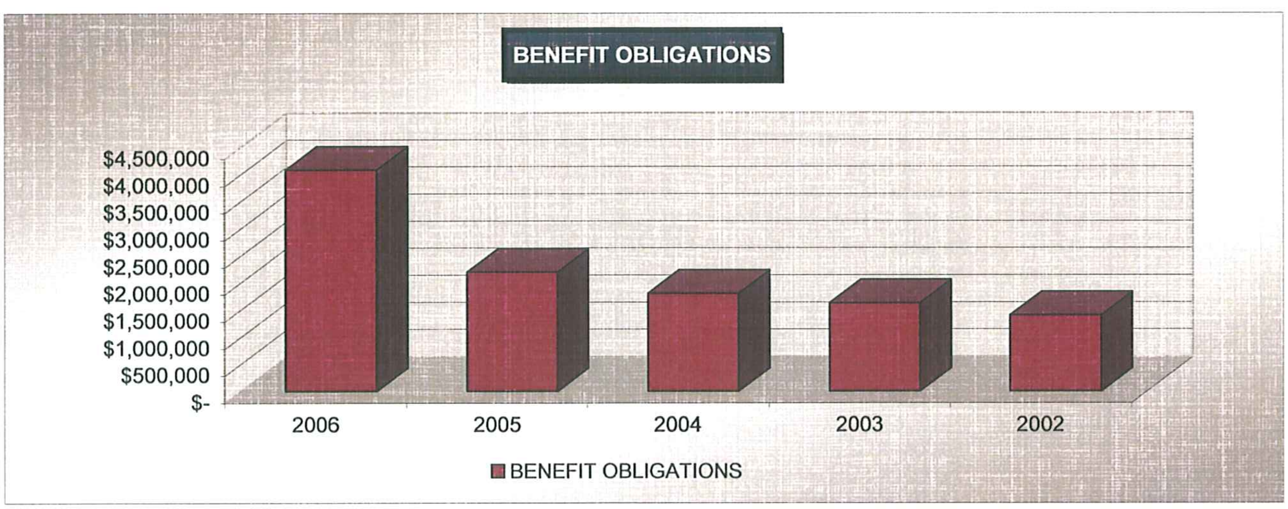
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
FINANCIAL STATEMENT TREND ANALYSIS
for the 14 months ended June 30, 2006

NET ASSETS



	2006	2005	2004	2003	2002
ASSETS	8,432,726	6,277,596	7,539,094	7,605,281	7,418,109
LIABILITIES	4,543,499	2,247,275	2,074,078	2,140,446	1,527,011
NET ASSETS	3,889,227	4,030,321	5,465,016	5,464,835	5,891,098

Assets have increased ~$2.2 million since 2005 and ~$1 million since 2002. Liabilities have increased ~$2.3 million since 2005 and ~$3 million since 2002. As a result, net assets have decreased ~$100,000 since 2005 and ~$2 million since 2002.

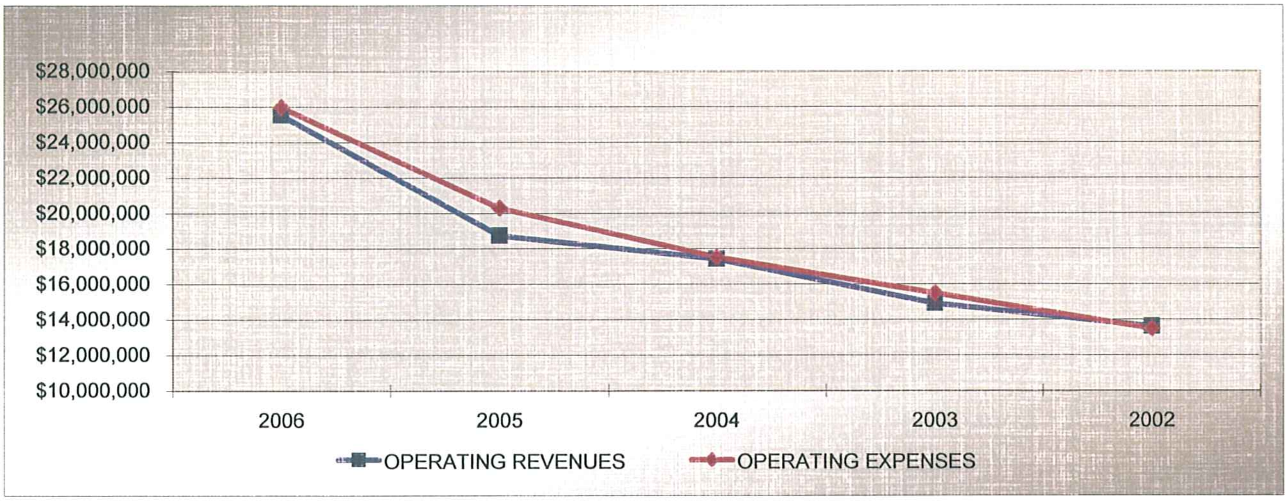


	2006	2005	2004	2003	2002
BENEFIT OBLIGATIONS (INCL. IN LIABILITIES ABOVE)	$ 4,082,725	$ 2,197,895	$ 1,805,864	$ 1,626,441	$ 1,400,000

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
FINANCIAL STATEMENT TREND ANALYSIS
for the 14 months ended June 30, 2006

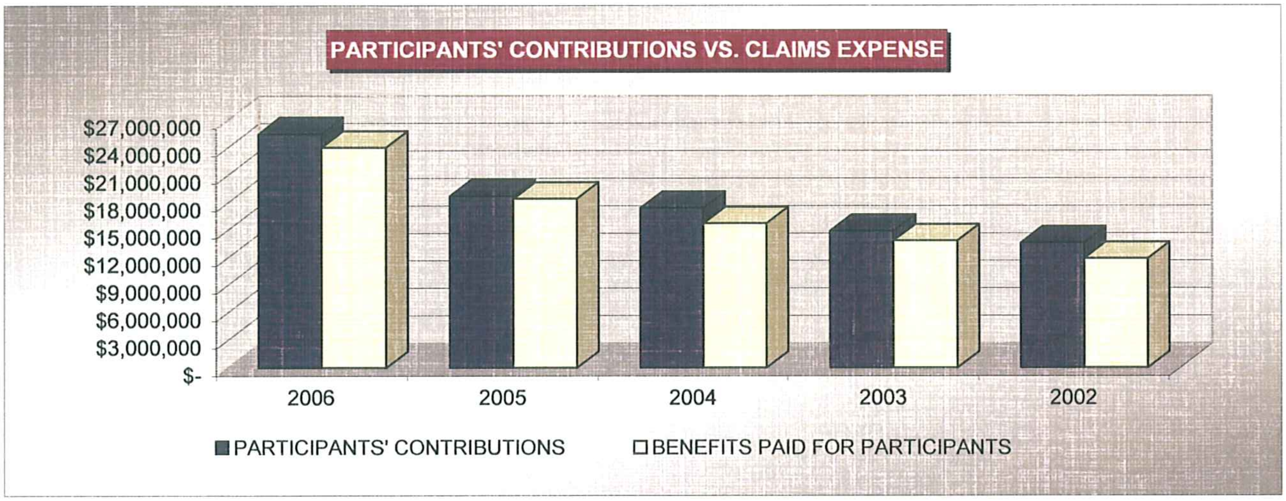
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS



	2006	2005	2004	2003	2002
OPERATING REVENUES	$ 25,527,378	$ 18,745,651	$ 17,434,473	$ 14,918,808	$ 13,621,565
OPERATING EXPENSES	25,981,455	20,303,822	17,539,778	15,494,545	13,506,974
OPERATING INCOME (LOSS)	(454,077)	(1,558,171)	(105,305)	(575,737)	114,591
NON-OPERATING REVENUES	312,983	123,476	105,486	149,474	232,313
CHANGE IN NET ASSETS	$ (141,094)	$ (1,434,695)	$ 181	$ (426,263)	$ 346,904
OPERATING REVENUES - INCREASE (DECREASE)	$ 6,781,727	$ 1,311,178	$ 2,515,665	$ 1,297,243	$ 650,987
	36%	8%	17%	10%	5%
OPERATING EXPENSES - INCREASE (DECREASE)	$ 5,677,633	$ 2,764,044	$ 2,045,233	$ 1,987,571	$ 1,559,489
	28%	16%	13%	15%	13%

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
FINANCIAL STATEMENT TREND ANALYSIS
for the 14 months ended June 30, 2006

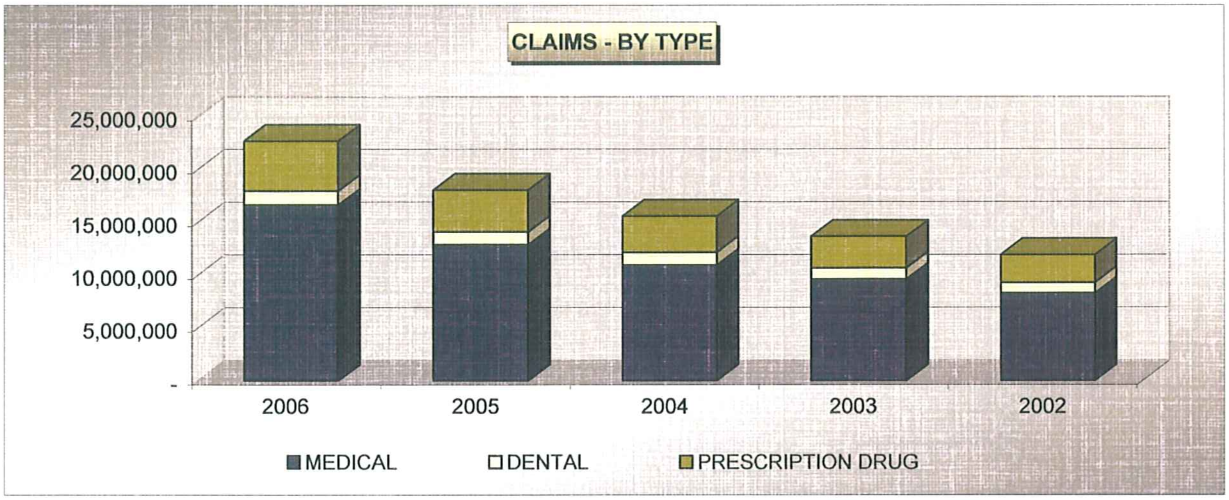


	2006	2005	2004	2003	2002
OPERATING REVENUES:					
PARTICIPANTS' CONTRIBUTIONS	$ 25,527,378	$ 18,745,651	$ 17,434,473	$ 14,918,808	$ 13,621,565
OPERATING EXPENSES					
BENEFITS PAID FOR PARTICIPANTS	$ 24,042,246	$ 18,458,441	$ 15,751,183	$ 13,879,617	$ 11,906,772
ADMINISTRATIVE EXPENSES	1,939,209	1,845,381	1,788,595	1,614,928	1,600,202
TOTAL OPERATING EXPENSES	$ 25,981,455	$ 20,303,822	$ 17,539,778	$ 15,494,545	$ 13,506,974

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
FINANCIAL STATEMENT TREND ANALYSIS
for the 14 months ended June 30, 2006

BENEFITS PAID FOR PARTICIPANTS



	2006	2005	2004	2003	2002
MEDICAL	$ 16,644,326	$ 12,889,195	$ 10,940,383	$ 9,614,507	$ 8,265,051
DENTAL	1,330,065	1,195,255	1,207,807	1,053,048	1,008,662
PRESCRIPTION DRUG	4,726,450	3,981,960	3,423,570	2,985,621	2,633,059
	22,700,841	18,066,410	15,571,760	13,653,176	11,906,772
INCREASE IN BENEFIT OBLIGATION	1,341,405	392,031	179,423	226,441	-
	$ 24,042,246	$ 18,458,441	$ 15,751,183	$ 13,879,617	$ 11,906,772
MEDICAL	73.3%	71.3%	70.3%	70.4%	69.4%
DENTAL	5.9%	6.6%	7.8%	7.7%	8.5%
PRESCRIPTION DRUG	20.8%	22.0%	22.0%	21.9%	22.1%
	100%	100%	100%	100%	100%

- 2006 claims (based on annualized totals):

  i. Medical (~$14.3 million annualized expense) – claims increased ~$1.4 million (~11%) in 2006 vs. 2005, and increased ~$6 million (~73%) vs. 2002.

  ii. Dental (~$1.1 million annualized expense) – remained comparable in 2006 vs. 2005, but increased ~$131,000 (~13%) vs. 2002.

  iii. Prescription drug (~$4.1 million annualized expense) – remained comparable in 2006 vs. 2005, but increased ~$2.1 million (~80%) vs. 2002.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

Current assets:		
Cash	$	599,757
Investments		7,715,727
Other assets		117,242
	$	8,432,726

LIABILITIES AND NET ASSETS

Current liabilities:		
Benefit obligations	$	4,082,725
Accounts payable		15,909
Unearned revenue		444,865
Total current liabilities		4,543,499
Net assets, unrestricted		3,889,227
	$	8,432,726

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the 14 months ended June 30, 2006

Operating revenues:	
Participants' contributions	$ 25,527,378
Operating expenses:	
Benefits paid for participants:	
Medical	16,644,326
Dental	1,330,065
Prescription drug	4,726,450
Net increase in benefit obligation	1,341,405
	24,042,246
Administrative expenses:	
Insurance premiums	460,723
Third party administration fees	702,369
PPO access fees	578,645
Provider review and precertification fees	34,548
Professional fees	147,793
Miscellaneous	15,131
Total operating expenses	25,981,455
Operating loss	(454,077)
Non-operating revenues:	
Investment income	312,983
Change in net assets	(141,094)
Net assets, beginning of year	4,030,321
Net assets, end of year	$ 3,889,227

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF CASH FLOWS
for the 14 months ended June 30, 2006

Cash flows from operating activities:	
Cash received from participants' contributions	$ 25,972,243
Cash paid for participants' benefits	(22,157,416)
Cash paid for administrative expenses	(2,041,415)
Net cash provided by operating activities	1,773,412
Cash flows from investing activities:	
Purchases of investments	(5,000,000)
Proceeds from sale of investments	3,497,358
Investment income received	312,983
Net cash used by investing activities	(1,189,659)
Net increase in cash	583,753
Cash, beginning of year	16,004
Cash, end of year	$ 599,757

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS, Continued
for the 14 months ended June 30, 2006

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (454,077)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Other assets	(68,735)
Benefit obligations	1,341,405
Claims payable	543,425
Accounts payable	(33,471)
Unearned revenue	444,865
Total adjustments	2,227,489
Net cash provided by operating activities	$ 1,773,412

The accompanying notes are an integral part of these financial statements.

1. Description of the Entity:

The Huron-Erie School Employee Insurance Association (the "Association") is a shared public entity risk pool created on January 30, 1982 for the purpose of providing medical, dental and prescription drug insurance benefits for employees, and their dependents or designated beneficiaries, of the participating member districts in Erie and Huron Counties. The participating employers make contributions to the Association sufficient to cover substantially all costs of the Association.

Each of the thirteen participating member districts is represented on the board of trustees of the Association by their respective superintendent or a designate of their superintendent. The trustees are authorized to pay reasonable compensation and necessary expenses incurred in the performance of services as consistent with the purpose of the Association, including for the payment of benefits, stop loss insurance premiums and other administrative expenses.

The Association may be terminated at any time by a two-thirds vote of the majority of the member districts of the Association pursuant to relevant laws and regulations. Any assets of the Association remaining after payment of all obligations shall be distributed to the member districts in a manner consistent with the purpose for which the Association was established, according to their proportionate share of contributions paid during the previous plan year.

The Association incurs premiums for specific and aggregate stop loss insurance. The specific stop loss limit of $300,000 represents the maximum amount of claims to be paid annually by the Association per participant. The aggregate attachment point is based on a contract rate times the number of covered employees and their dependents.

The Association has contracted with a third party administrator to act as its agent for the payment of plan benefits, selection of reinsurance coverage, and provision of certain administrative services, and is compensated for these services.

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 Association are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Association. For the Huron-Erie School Employee Insurance Association, this consists of a single enterprise fund.

1. Description of the Entity, Continued:

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

2. Summary of Accounting Policies:

Basis of Presentation – The financial statements of the Association 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 Association also applies Financial Accounting Standards Board (FASB) Statements and Interpretations unless those pronouncements conflict with or contradict GASB pronouncements.

The Association 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 balancing 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.

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 Association are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Association meets the cash flow needs of its enterprise activity.

Basis of Accounting – The Association'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 Association members, and benefits paid for participants are recognized when incurred.

2. Summary of Accounting Policies, Continued:

Cash Equivalents and Investments – The Association's policy is to treat all of its short-term, highly liquid investments as investments, and not as cash equivalents.

Investments were limited to federal agency obligations, commercial paper, nonnegotiable certificates of deposit, and investments in the State Treasury Asset Reserve of Ohio ("STAR Ohio"). 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.

The Association has invested in STAR Ohio, an investment pool managed by the Office of the Ohio Treasurer of State, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on the respective statement of net asset date.

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 Association or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net assets at June 30, 2006.

Operating Revenues and Expenses – Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Association, 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 estimates, 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 Association Board of Trustees and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

2. Summary of Accounting Policies, Continued:

Change in Accounting Principal – For fiscal year 2006, the Association has implemented GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*". GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks; credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Association; however, an additional note disclosure can be found in Note 3.

3. Deposits and Investments:

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Association's deposits may not be returned. Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The Association's practice is to place deposits with commercial banks within its service area. At June 30, 2006, both the carrying amount and bank balance of the Association's deposits totaled $599,757, of which $100,000 was covered by Federal depository insurance. The remaining balance of $499,757 was exposed to custodial risk as discussed above.

Protection of the Association'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 – As of June 30, 2006, the Association had the following investments and maturities:

		Data as of June 30, 2006 Investment Maturities (Par)			
Investment Type	Fair Value	6 Months Or Less	7 to 12 Months	Total	% Of Total
FHLMC	$ 2,471,443	$ 2,471,443	$ -	$ 2,471,443	32.04%
FNMA	2,427,164	494,764	1,932,400	2,427,164	31.45%
StarOhio	2,817,120	2,817,120	-	2,817,120	36.51%
Total	$ 7,715,727	$ 5,783,327	$ 1,932,400	$ 7,715,727	100.00%

3. Deposits and Investments, Continued:

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rtes and according to state law, the Association's investment policy limits investment portfolio maturities to two years or less.

Credit Risk – The Association's investments in FNMA and FHLMC were all rated AAA and Aaa by Standard and Poor's and Moody's Investor Services, respectively. STAR Ohio has been given an AAAm rating by Standard and Poor's.

Concentration of Credit Risk – The Association places no limit on the amount that may be invested in any one issuer. The percentage to total of each investment type held by the Association at June 30, 2006 has been listed in the chart above.

4. Other Assets:

Other assets consist of the following at June 30:

Prepaid premiums for plan purchaser protection liability insurance	$ 2,864
Administration fees	114,378
	$ 117,242

5. 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 Association has recorded benefit obligations as of June 30, 2006 totaling $4,082,725, 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.

5. Benefit Obligations, Continued:

Changes in the Association's benefit obligations amount in fiscal 2006 was as follows:

Balance at beginning of the fiscal year	$ 2,197,895
Current year claims	24,042,246
Claims paid	(22,157,416)
Balance at end of the fiscal year	$ 4,082,725

6. Tax Status:

The trust established under the Association to hold plan assets is qualified pursuant to the appropriate section of the Internal Revenue Code as a tax exempt organization. The Association has obtained a favorable determination letter from the Internal Revenue Service and the Association believes that the plan continues to qualify and operate as designed.

BROCKMAN, COATS, GEDELIAN & CO.
certified public accountants and consultants
1735 Merriman Road, Akron, Ohio 44313-9007
(330) 864-6661 FAX: (330) 864-6918

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*

To the Executive Committee of the Board of Trustees of
Huron Erie School Employee Insurance Association:

We have audited the financial statements of Huron-Erie School Employee Insurance Association as of and for the 14 months ended June 30, 2006, and have issued our report thereon dated December 10, 2007. 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 Huron-Erie School Employee Insurance Association'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 Huron-Erie School Employee Insurance Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Huron-Erie School Employee Insurance Association's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we reported to management of Huron-Erie School Employee Insurance Association in a separate letter dated December 10, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron-Erie School Employee Insurance Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below as item 2006-01.

2006-01 – Untimely ORC 9.833 Report

Criteria – Ohio revised Code Section 9.833 requires that self-insured governments calculate a reserve 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. 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,

Condition – For the year ended June 30, 2006, the Association failed to complete an ORC 9.833 report by September 30, 2006 (90 days after the fiscal year-end). The actuary's report is dated June 15, 2007.

Cause – Effective December 31, 2005, the Association terminated its relationship with Klais & Company, who maintained all accounting records for the Association and engaged an actuary to prepare the ORC 9.833 report. In the course of this transition, the Association did not engage another actuary to perform this service.

Effect – An ORC 9.833 report was not available for review by the Board of Trustees until well after September 30, 2006. In addition, this contributed to audit delays resulting in submission of the 2006 audit report to the office of the Auditor of State subsequent to the deadline of December 31, 2006.

Recommendation – We recommend that in future years, the Association engage an actuary to prepare the ORC 9.833 report prior to the September 30th deadline.

Management's Response – Management was aware during the relevant period of the ORC 9.833 requirements. The actuarial certification was delayed because management was dealing with major transition issues related to the Association's change of third party administrators. Management intends to comply with the 90-day deadline contained in ORC 9.833 in the future.

Huron-Erie School Employee Insurance Association's response to the finding identified in our audit is described above. We did not audit Huron-Erie School Employee Insurance Association's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Brockman, Coats, Gedelian & Co.

December 10, 2007

Mary Taylor, CPA
Auditor of State

HURON ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 15, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us