

OME-RESA HEALTH BENEFITS CONSORTIUM

JEFFERSON COUNTY, OHIO

AUDIT REPORT

For the Years Ended June 30, 2007 and 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Board of Directors
OME-RESA Health Benefits Consortium
2023 Sunset Boulevard
Steubenville, Ohio 43952

We have reviewed the *Report of Independent Accountants* of the OME-RESA Health Benefits Consortium, Jefferson County, prepared by Charles E. Harris & Associates, Inc. for the audit period July 1, 2005 through June 30, 2007. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 OME-RESA Health Benefits Consortium is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2008

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**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants.....	1
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Enterprise Fund Type - For the Years Ended June 30, 2007 and 2006.....	3
Notes to the Financial Statements	4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7
Schedule of Prior Audit Findings	9

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REPORT OF INDEPENDENT ACCOUNTANTS

OME-RESA Health Benefits Consortium
Jefferson County
2023 Sunset Boulevard
Steubenville, Ohio 43952

To the Board of Directors:

We have audited the accompanying financial statements of the OME-RESA Health Benefits Consortium, Jefferson County, (the Consortium) as and for the years ended June 30, 2007 and 2006. 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 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 described more fully in Note 1, the Consortium has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Consortium to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2007 and 2006. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Consortium has elected not to reformat its statements. Since the Consortium does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended June 30, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2007 and 2006, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Consortium, as of June 30, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Consortium to include Management's Discussion and Analysis for the years ended June 30 2007 and 2006. The Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
January 24, 2008

**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2007, AND 2006**

	2007	2006
<u>Cash Receipts</u>		
Contribution from Members	\$ 129,998,919	\$ 99,262,430
Investment earnings	2,163,016	847,931
Total Receipts	132,161,935	100,110,361
<u>Cash Disbursements</u>		
Claims Payments	88,576,327	63,486,390
Stop Loss Premiums	15,232,123	11,325,943
Administrative Fees	7,819,340	5,963,892
Life and Vision Premium	756,419	752,478
Total Disbursements	112,384,209	81,528,702
The Receipts Over/(Under) (Disbursements)	19,777,726	18,581,659
Other Financing Sources/(Uses):		
Refund of Prior Year Expenditures	283,399	1,219,502
Total Other Financing Sources/(Uses)	283,399	1,219,502
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	20,061,125	19,801,161
Fund Cash Balances, July 1	44,526,429	24,725,268
Fund Cash Balances, June 30	<u>\$ 64,587,554</u>	<u>\$ 44,526,429</u>
Reserve for Encumbrances	<u>\$ 543,901</u>	<u>\$ 3,135</u>
See accompanying Notes to the Financial Statements.		

**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007, AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Ohio Mid-Eastern Educational Service Center Agency (OME-RESA) Health Benefits Consortium, Jefferson County, (the Consortium) is a claims servicing pool established pursuant to Ohio Revised Code Chapter 167. The legislative body of the Consortium is an assembly consisting of a designee from each of its seventy five members. The membership of the assembly appoints a nine member Board of Directors, which acts as the managerial body of the Consortium. The Consortium provides a cooperative program to administer medical, prescription, vision, and dental benefits for employees of the participating entities and their eligible dependents.

Contributions to the Consortium are received monthly from the participants and their employees based upon amounts determined by independent insurance consultants. At June 30, 2007, a stop loss third party insured the Consortium for claims in excess of \$400,000 per participant.

Besides the standard monthly contributions, the Consortium may extend an assessment to each participant based on a three year window calculation determined by an independent insurance consultant. The calculation is based on the ratio of total expense to total income for each school during the previous three years ended June 30. The insurance consultant separately reviews each participant's medical, prescription, vision, and dental balances for potential assessments. Conversely, a participant may be eligible for a month or two month waiver of its monthly contributions based on the above calculation.

A participant may withdraw from the Consortium or any particular benefits program. Four participants withdrew from the Consortium while eight additional participants enrolled during the period July 1, 2005 through June 30, 2007.

All administrative costs and expenses incurred for the maintenance of the Consortium have been paid by the participants through June 30, 2007.

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

The Jefferson County Education Service Center acts as fiscal agent for the Consortium and is a separate reporting entity with separate financial statements.

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State prescribes or permits.

**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007, AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

The Consortium's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Consortium reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Consortium values certificates of deposit at cost.

D. Budgetary Process

The budgetary process is not a requirement of the Consortium.

2. EQUITY IN CASH AND INVESTMENTS

The carrying amount of cash and investments at June 30 follows:

	<u>2007</u>	<u>2006</u>
Demand deposit	\$41,745,554	\$21,684,429
Certificate of deposit	22,842,000	22,842,000
Total deposit	<u>\$64,587,554</u>	<u>\$44,526,429</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation and collateralized by the financial institution's public entity deposit pool.

3. RISK MANAGEMENT

Self Insurance

The OME-RESA Health Benefits Insurance Consortium is a claims servicing self-insurance pool organized under Ohio Revised Code Chapter 167 for the purpose of establishing and carrying out a cooperative program to administer medical, prescription, vision and dental benefits for employees of the participating entities and their eligible dependents. The Consortium contracts with third party administrators to process and pay health claims, dental claims and vision claims incurred by its members. The Consortium also purchases stop loss coverage for claims in excess of a set amount for individual claims and in the pool's aggregate.

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 claims by eligible employees which are payable by each member, the member's share of the medical, prescription, vision and dental insurance premiums, and their proportionate share of the administrative costs of the Consortium.

The actual balance of each member's account is determined on a monthly basis. Each member is required to meet or exceed the claims that have been incurred but not reported (IBNR) and to maintain adequate reserves or current funding to meet or exceed their claims fluctuation reserve requirements. If a member is in a deficit position, the participating member has two fiscal years to make up a negative reserve amount or an insufficient IBNR and three fiscal years to make up insufficient claims fluctuation reserves.

**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007, AND 2006
(Continued)**

3. RISK MANAGEMENT (Continued)

Members may withdraw from the Consortium with as much notice as is possible for the termination, allowing the Consortium time to determine any withdrawal balance owed to or by the departing employer. Any outstanding reserve balances are held by the Consortium for a maximum period of six months to satisfy the payment of claims incurred before termination. The terminating member has the option to pay all of claims incurred prior to the termination of membership so that any reserves could be released sooner. Employers found to be in a deficit position wishing to leave the Consortium; will be required to repay the deficit in full within ninety days of the effective withdrawal date. Additionally, such terminating member will be required to pay any claims incurred prior to termination notification.

4. CLAIMS LIABILITY

The incurred but not reported (IBNR) claims (actuarial liability) at June 30 are used by the Consortium to help determine the rates to charge members. Additionally, the estimation of IBNR, as of a valuation date, allows the consortium to compare the liability to the funds reserved and to determine whether the amounts reserved meet the requirements of Ohio Revised Code Section 9.833. The Consortium has also established a formal funding policy for claims fluctuation reserves to aid in tempering potential significant fluctuations in premiums and contribution levels that may be required. The IBNR claims liability and the fluctuation reserve are based on actuarial assumptions which produce a liability estimate consistent with the plan of benefits in force and with administrative practices and have been calculated on actuarial assumptions which are reasonable and appropriate under the circumstances. Premium charges to member governments are based on calculations provided by the Consortium's Health Actuary. As of the valuation date, June 30, the IBNR liabilities, the fluctuation reserves and the total funds reserved follows:

	2007	2006
Cash and Investments	\$44,526,429	\$64,587,554
Actuarial Liabilities	14,425,000	22,111,000
Excess funds before		
Fluctuation reserve	30,101,429	42,476,554
Fluctuation reserve	42,027,673	61,336,995
Excess Funds	<u>(\$11,926,244)</u>	<u>(\$18,860,441)</u>

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**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**

OME-RESA Health Benefits Consortium
Jefferson County
2023 Sunset Boulevard
Steubenville, OH 43953

To the Board of Directors:

We have audited the financial statements of the OME-RESA Health Benefits Consortium, Jefferson County, (the Consortium) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated January 24, 2008, wherein we noted the Consortium followed accounting practices prescribed or permitted by the Auditor of State of Ohio. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium'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 Consortium's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices prescribed or permitted by the Auditor of State of Ohio such that there is more than a remote likelihood that a misstatement of the Consortium's financial statements that is more than inconsequential will not be prevented or detected by the Consortium'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 Consortium's internal control.

Our consideration of 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Charles E. Harris & Associates, Inc.

January 24, 2008

**OME-RESA HEALTH BENEFITS CONSORTIUM
JEFFERSON COUNTY
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

Schedule of Prior Audit Findings

The prior audit report, for the years ending June 30, 2005, 2004, and 2003, reported one Finding for Recovery which has been repaid under last audit in the amount of \$1,747.75. The amount was received on February 21, 2006 and has been credited to the OME-RESA Health Benefits Insurance Consortium Operating Fund.



Mary Taylor, CPA
Auditor of State

OME-RESA HEALTH BENEFITS CONSORTIUM

JEFFERSON 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
MARCH 25, 2008**