

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA

Auditor of State

Board of Directors
School Employees Insurance Consortium
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

We have reviewed the *Independent Auditors' Report* of the School Employees Insurance Consortium, Ross County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 *Independent Auditors' Report* 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 *Independent Auditors' Report* 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 School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 15, 2008

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

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INDEPENDENT AUDITORS' REPORT

School Employees Insurance Consortium
Ross County
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

To the Board of Directors:

We have audited the accompanying financial statement of the School Employees Insurance Consortium, Ross County, Ohio (the Consortium) as of and for the fiscal year ended June 30, 2008. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on this financial statement 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Consortium has prepared this financial statement 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 statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the fund the accompanying financial statement presents, GAAP requires presenting entity-wide statements and also presenting the Consortium's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require the Consortium to reformat its statements. The Consortium has elected not to follow GAAP statement formatting requirements. 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 statement referred to above for the year ended June 30, 2008 does 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, 2008, or its changes in financial position or cash flows, where applicable for the fiscal year ended June 30, 2008.

Wilson, Shannon & Snow, Inc.

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Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the fund cash balance of the School Employees Insurance Consortium, Ross County, as of June 30, 2008, and its cash receipts and disbursements for the fiscal year then ended on the accounting basis Note 1 describes.

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 December 8, 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 the 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.

Wilson, Shuman & Snow, Inc.

December 8, 2008

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Cash Receipts:	
Charges for Services	\$ 23,859,910
Other Revenue	<u>126,960</u>
Total Operating Cash Receipts	<u>23,986,870</u>
Operating Cash Disbursements:	
Purchased Services	2,480,846
Claims	<u>18,276,614</u>
Total Operating Cash Disbursements	<u>20,757,460</u>
Operating Income	<u>3,229,410</u>
Non-Operating Cash Receipts (Disbursements):	
Earnings on Investments	208,430
Refund of Prior Year Receipts	<u>(1,764,790)</u>
Total Non-Operating Cash Receipts	<u>(1,556,360)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	1,673,050
Cash Balance, July 1	<u>5,370,300</u>
Cash Balance, June 30	<u><u>\$ 7,043,350</u></u>

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

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The School Employees Insurance Consortium, Ross County, Ohio (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 purposes 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, 2008, eleven school districts were actively participating in the consortium. The Consortium had no new school districts join membership and two school districts, the Adena Local School District and the Bright Local School District, rescinded its membership during fiscal year 2008.

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

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

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

The District values U.S. Treasury Notes and money market funds at cost.

D. Budgetary Process

The Consortium is not required to adopt a budget; however, member school districts are required by Ohio law to adopt an annual budget.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2008
(Continued)**

2. EQUITY IN POOLED CASH

The District may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof. The carrying amount of cash and investments at December 31 was as follows:

	<u>2008</u>
Demand deposits	<u>\$2,025,445</u>
Total deposits	<u>2,025,445</u>
U.S. Treasury Notes	4,993,128
Money Market Fund	<u>24,777</u>
Total investments	<u>5,017,905</u>
Total deposits and investments	<u><u>\$7,043,350</u></u>

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

Investments: The Federal Reserve holds the Consortium's U.S. Treasury Notes in book-entry form by, in the name of the Consortium's financial institution. The financial institution maintains records identifying the Consortium as owner of these securities.

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 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 a health insurance program that is adequate to meet the needs of each member school district under its benefit plan for employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both 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 the claims by eligible employees which are payable by each member, the member's share of the health insurance premiums, and their proportionate share of the administrative cost of the Consortium. The actual balance of each member school district's account is determined on an annual basis. If a member is in a deficit position, the following is required: 1) If the deficit balance is less than \$50,000, the member school district is not obligated to the Consortium; 2) If the deficit balance is between \$50,000 and \$200,000, the member school district is obligated for one-half of the difference between \$50,000 and the obligated balance immediately; and 3) If the deficit balance is over \$200,000, the member school district is obligated for one-half of the difference between \$50,000 and \$200,000 and one-third of the amount over \$200,000. Member school districts with deficit balances can elect to apply the deficit balance monthly by paying additional amounts in addition to their monthly premiums.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2008
(Continued)**

3. RISK MANAGEMENT (Continued)

Member school districts 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 the member's account and the remaining claims of any of its eligible members is the responsibility of each individual member school district upon withdrawal from the Consortium.

4. CLAIMS LIABILITY

The incurred but not reported (IBNR) claims under the health plan at June 30, 2008 (the liability) are used by the Consortium to help determine the rates to charge members. A comparison of cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash and investments	\$7,043,350	\$5,370,300	\$4,192,666
Actuarial liabilities	2,574,000	3,074,000	2,457,768

The trend data above is useful in assessing the adequacy of rates the Consortium charges its members. A decreasing liability indicates current rates may be sufficient to cover liabilities that members have incurred while an increasing liability indicates rates may not be sufficient. The Consortium currently pays all claims immediately upon presentation for payment by the Third Party Administrator.

The Consortium used an actuary to estimate the liability and determine if an adequate reserve has been established by its member school districts. The reserve payments by the member school districts started July 1, 2002.

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2008
(Continued)**

5. CASH POSITION OF MEMBER SCHOOL DISTRICTS

At June 30, members of the Consortium had the following respective cash position, including their respective portion of the Consortium's miscellaneous account:

<u>Member School District</u>	<u>Cash Position at 6/30/08</u>
Adena Local School District	\$ 3,331
Bright Local School District	(8,084)
Circleville Local School District	1,251,032
Huntington Local School District	691,811
Logan Elm Local School District	780,363
Lynchburg-Clay Local School District	2,485
Paint Valley Local School District	551,809
Pickaway-Ross Joint Vocational School District	739,319
Ross-Pike Educational Service Center	(37,827)
Southeastern Local School District	389,322
Teays Valley Local School District	1,422,805
Union Scioto Local School District	767,735
Westfall Local School District	364,044
Zane Trace Local School District	13,853
Miscellaneous Fund	<u>111,352</u>
Total	<u>\$7,043,350</u>

Monies recorded within the miscellaneous fund consisted of receipts and disbursements which could not be specifically assigned to a member district. Beginning fiscal year 2008, the Consortium elected to pool the monies within the miscellaneous fund to help ensure that no member school district will have more than \$150,000 stop loss exposure on a per claim basis.

6. JOINTLY GOVERNED ORGANIZATION

The Consortium is a legally separate entity. The Consortium is a jointly governed organization with member school districts. The governing board consists of the superintendent or other designee appointed by each of the members of the Consortium. The Consortium does not have an ongoing financial interest in or ongoing financial responsibility for the member school districts other than the claims paid on behalf of the member school district employees.

The Consortium utilizes the Ross-Pike Educational Service Center (the Fiscal Agent) as its fiscal agent. The financial activity for the Consortium is reflected in an agency fund of the Fiscal Agent.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

School Employees Insurance Consortium
Ross County
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

To the Board of Directors:

We have audited the financial statement of the School Employees Insurance Consortium, Ross County (the Consortium) as of and for the fiscal year ended June 30, 2008 which collectively comprise the Consortium's financial statement, and have issued our report thereon dated December 8, 2008, wherein we noted the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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*.

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 audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we have not opined 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 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 its applicable accounting basis, such that there is more than a remote likelihood that the Consortium's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Consortium's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we did note certain matters that we have reported to the Consortium's management in a separate letter dated December 8, 2008.

Wilson, Shannon & Snow, Inc.

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Compliance and Other Matters

As part of reasonably assuring whether the Consortium'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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

However, we did note certain noncompliance or another matter that we reported to the Consortium's management in a separate letter dated December 8, 2008.

We intend this report solely for the information and use of management, Board of Directors and the Auditor of State. We intend it for no one other than these specified parties.

Wilson, Shuman & Snow, Inc.

December 8, 2008

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
2007-001	Ohio Administrative Code Section 117-2-02(D) requires public offices to maintain proper accounting records.	Yes	N/A
2007-002	Manual Checks	Partially	Reported in the Management Letter.
2007-003	Board of Directors Reviews of Financial Activity	Yes	N/A
2007-004	Detection of Misstatements Attributed to Fraud or Illegal Acts	Yes	N/A



Mary Taylor, CPA
Auditor of State

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 24, 2008**