

**HURON-ERIE SCHOOL EMPLOYEE  
INSURANCE ASSOCIATION**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2008**





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 Auditors' Report* of the Huron Erie School Employee Insurance Association, Erie County, prepared by Weber O'Brien Ltd., 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.

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

April 6, 2009

**This Page is Intentionally Left Blank.**

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION**

**TABLE OF CONTENTS**

<b>Independent Auditors' Report</b>	<b>1 - 2</b>
<b>Management's Discussion and Analysis</b>	<b>3 - 6</b>
<b>Statement of Net Assets</b>	<b>7</b>
<b>Statement of Revenues, Expenses, and Changes in Net Assets</b>	<b>8</b>
<b>Statement of Cash Flows</b>	<b>9</b>
<b>Notes to the Basic Financial Statements</b>	<b>10 - 16</b>
<b>Independent Auditors' 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</b>	<b>17 - 18</b>

**This Page is Intentionally Left Blank.**



5580 Monroe Street • Sylvania, OH 43560

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of and for the year ended June 30, 2008, which collectively comprise the Association's basic financial statements 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The Association has not presented the required supplementary information on revenue and claims development that accounting principles generally accepted in the United States 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 March 12, 2009, 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 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted 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.

A handwritten signature in cursive script that reads "Weber O'Brien Ltd".

March 12, 2009



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Huron-Erie School Employee Insurance Association's (the "Association") financial performance provides an overall review of the Association's financial activities for the fiscal year ended June 30, 2008. 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 the notes to the basic financial statements to enhance their understanding of the Association's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- In total, net assets were \$9,529,927 at June 30, 2008. This represents an increase of \$2,536,850 or 36.28% over fiscal year 2007.
- The Association had operating revenues of \$22,903,986 and operating expenses of \$20,853,564 for fiscal year 2008. The Association had \$486,428 in investment revenue. This figure includes interest earned plus any changes in the fair market value of investments held by the Association. Operating income and the change in net assets for the fiscal year was \$2,050,422 and \$2,536,850, respectively.

**Using these Basic Financial Statements**

This annual report consists of a set of financial statements and notes to those statements. These statements are organized so the reader can understand the Association's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Association, including all short-term and long-term financial resources and obligations.

**Reporting the Association's Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal 2008?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report the Association's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Association as a whole, the financial position of the Association has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Association's *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* can be found on pages 7-8 of this report. The *Statement of Cash Flows* provides information about how the Association finances and meets the cash flow needs of its operations. The *Statement of Cash Flows* can be found on page 9 of this report.

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

*Notes to the Basic Financial Statements*

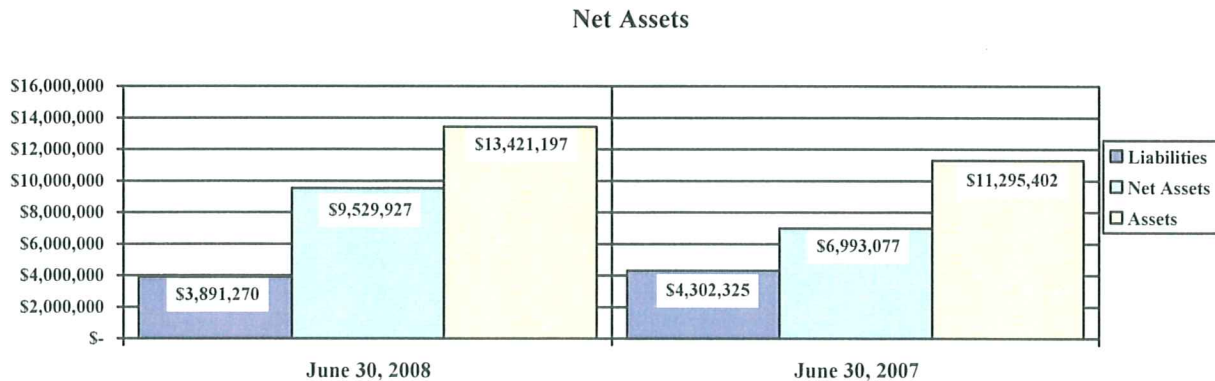
The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-16 of this report.

The table below provides a summary of the Association's net assets for 2008 and 2007.

	<b>Net Assets</b>	
	<u>2008</u>	<u>2007</u>
<b><u>Assets:</u></b>		
Cash	\$ 969,654	\$ 545,269
Investments	12,403,732	10,747,084
Receivables:		
Accounts	42,048	-
Accrued interest	2,722	-
Prepayments	<u>3,041</u>	<u>3,049</u>
Total assets	<u>13,421,197</u>	<u>11,295,402</u>
<b><u>Liabilities:</u></b>		
Accounts payable	5,370	27,246
Unearned revenue	-	491,379
Benefit obligations	<u>3,885,900</u>	<u>3,783,700</u>
Total liabilities	<u>3,891,270</u>	<u>4,302,325</u>
<b><u>Net Assets:</u></b>		
Unrestricted	<u>\$ 9,529,927</u>	<u>\$ 6,993,077</u>

Net assets increased by \$2,536,850 primarily due to participant contribution revenue exceeding claims expenses of the current year by approximately \$3.2 million. The benefit obligations liability increased \$102,200 based upon the report of the Association's independent actuary.

The chart below shows a breakdown of the Association's assets, liabilities and net assets for 2008 versus 2007:



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

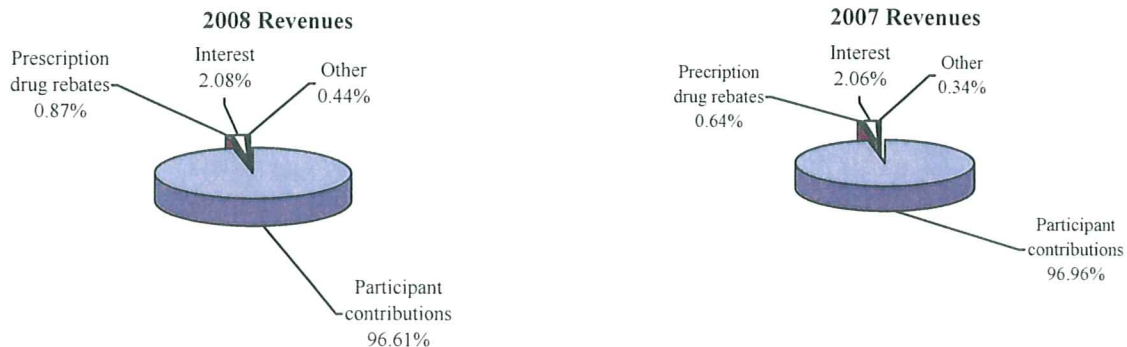
The table below shows the changes in net assets for fiscal year 2008 and 2007.

**Change in Net Assets**

	<u>2008</u>	<u>2007</u>
<b><u>Revenues:</u></b>		
Participant contributions	\$ 22,596,874	\$ 23,249,683
Prescription drug rebates	204,038	153,233
Investment Income	486,428	494,106
Other	<u>103,074</u>	<u>81,859</u>
Total revenue	<u>23,390,414</u>	<u>23,978,881</u>
<b><u>Expenses:</u></b>		
Claims	19,375,016	19,353,859
Third party administration fees	1,105,315	1,057,405
Insurance premiums	312,902	349,210
Professional fees	46,409	93,414
Miscellaneous	<u>13,922</u>	<u>21,143</u>
Total expenses	<u>20,853,564</u>	<u>20,875,031</u>
Change in net assets	2,536,850	3,103,850
Net assets at beginning of year	<u>6,993,077</u>	<u>3,889,227</u>
Net assets at end of year	<u>\$ 9,529,927</u>	<u>\$ 6,993,077</u>

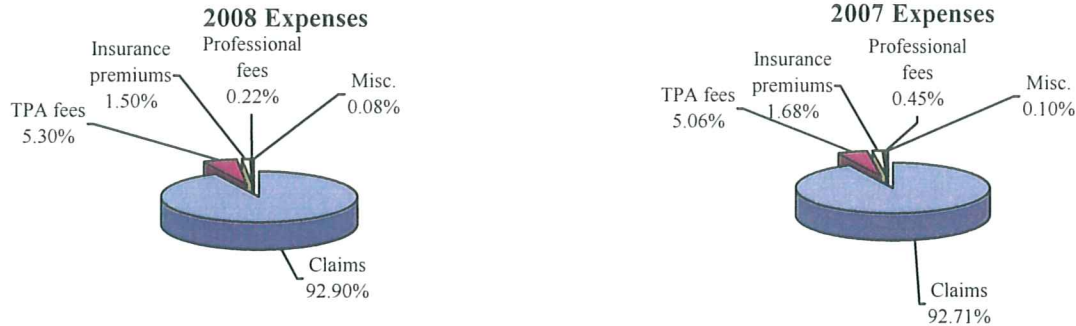
Participant contributions were less for fiscal year 2008 due to many of the member districts switching to the Ideal Plan which has lower premiums and each member district that implemented the Working Spouse Language was given a 10% discount on premiums. Other revenue consists primarily of subrogation revenue received by the Association during fiscal year 2008.

The charts below reflect the percentage of the revenues and expenses in 2008 versus 2007:



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**



**Debt Administration**

The Association had no debt obligations outstanding at June 30, 2008.

**Current Financial Related Activities**

The Association developed and approved three “ideal” plans that all districts were encouraged to negotiate to. Under these plans, member districts will receive uniform benefits and health plan arrangements. Language was also developed for Working Spouse restrictions that require spouses of covered employees to elect at least “single” coverage from their place of employment in order to be eligible to be covered as secondary under the Association’s plan. As an incentive, districts that have the Association’s Working Spouse Language will be given a 10% reduction in premiums for their health/prescription coverage. The Association expects to see cost savings as a result of these changes and expects to be able to market their services better to insurance carriers.

**Contacting the Consortiums Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors 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 Ms. Betty Schwiefert, Treasurer, Erie-Huron-Ottawa ESC, 2900 Columbus Avenue, Sandusky, Ohio 44870 or by calling (419) 625-6274.



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2008

<b>Current Assets:</b>	
Cash . . . . .	\$ 969,654
Investments . . . . .	12,403,732
Receivables:	
Accounts . . . . .	42,048
Accrued interest . . . . .	2,722
Prepayments. . . . .	<u>3,041</u>
Total current assets . . . . .	<u>13,421,197</u>
<b>Current Liabilities:</b>	
Accounts payable . . . . .	5,370
Benefit obligations . . . . .	<u>3,885,900</u>
Total current liabilities . . . . .	<u>3,891,270</u>
<b>Net Assets:</b>	
Unrestricted . . . . .	<u>9,529,927</u>
Total net assets . . . . .	<u><u>\$ 9,529,927</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<b>Operating revenues:</b>	
Participant contributions . . . . .	\$ 22,596,874
Prescription drug rebates . . . . .	204,038
Other . . . . .	<u>103,074</u>
 Total operating revenues . . . . .	 <u>22,903,986</u>
<b>Operating expenses:</b>	
Claims . . . . .	19,375,016
Third party administration fees. . . . .	1,105,315
Insurance premiums . . . . .	312,902
Professional fees. . . . .	46,409
Miscellaneous . . . . .	<u>13,922</u>
 Total operating expenses . . . . .	 <u>20,853,564</u>
 Operating income . . . . .	 <u>2,050,422</u>
<b>Nonoperating revenues:</b>	
Investment Income. . . . .	<u>486,428</u>
 Total nonoperating revenues . . . . .	 <u>486,428</u>
 Change in net assets . . . . .	 2,536,850
 <b>Net assets, July 1 . . . . .</b>	 <u>6,993,077</u>
 <b>Net assets, June 30. . . . .</b>	 <u>\$ 9,529,927</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<b>Cash flows from operating activities:</b>	
Cash received from participants . . . . .	\$ 22,105,495
Cash received from prescription drug rebates . . . . .	188,152
Cash received from other operations . . . . .	86,737
Cash payments for claims . . . . .	(19,282,641)
Cash payments for third party administration fees . . . . .	(1,101,815)
Cash payments for insurance premiums . . . . .	(312,894)
Cash payments for professional fees . . . . .	(71,785)
Cash payments for miscellaneous . . . . .	(13,922)
	<hr/>
Net cash provided by operating activities . . . . .	1,597,327
 <b>Cash flows from investing activities:</b>	
Investments purchased . . . . .	(12,403,732)
Investments sold . . . . .	10,595,443
Interest and dividends received . . . . .	635,347
	<hr/>
Net cash used in investing activities . . . . .	(1,172,942)
 Net increase in cash . . . . .	 424,385
 <b>Cash, July 1 . . . . .</b>	 <b>545,269</b>
<b>Cash, June 30 . . . . .</b>	<b>\$ 969,654</b>
	<hr/> <hr/>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 2,050,422
 Changes in assets and liabilities:	
Increase in accounts receivable . . . . .	(42,048)
Decrease in prepayments . . . . .	8
Decrease in accounts payable . . . . .	(21,876)
Decrease in unearned revenue . . . . .	(491,379)
Increase in benefit obligations . . . . .	102,200
	<hr/>
Net cash provided by operating activities . . . . .	<b>\$ 1,597,327</b>
	<hr/> <hr/>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 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. The Association is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Association's tax-exempt status.

Each of the thirteen participating member districts is represented on the Board of Trustees of the Association (the "Board") by their respective superintendent or a designate of their superintendent. The Board is 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 payments 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.

The Erie-Huron-Ottawa Educational Service Center (the "ESC") serves as Fiscal Agent for the Association. The Fiscal Agent is responsible for administering the financial transactions of the Association. The Fiscal Agent carries out other responsibilities as approved by the Board and agreed to by the Fiscal Agent. The Treasurer of the Fiscal Agent is the Treasurer of the Association. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board. The Fiscal Agent maintains the Association's funds as a custodial fund and separate from all other funds of the Fiscal Agent.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Association also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Association also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Association has elected not to apply these FASB Statements and Interpretations.



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The Association's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed 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. On this basis, no governmental organizations other than the Association itself are included in the financial reporting entity. The primary government consists of all funds, departments and agencies that are not legally separate from the Association. For the Association, this consists of a single enterprise fund.

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; or (3) the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) 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. Based upon the application of these criteria, the Association has no component units.

**B. Fund Accounting**

The Association maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Association uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

**C. Basis of Accounting/Measurement Focus**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Association utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The Association's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Association's operations 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 Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from participants contributions for insurance coverage. Operating expenses for the Association include the payment of claims, carrier stop loss premiums and administrative and other fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Cash and Investments**

The ESC, as the Association's current Fiscal Agent, maintains the Association's financial activity on the Educational Service Center's books under a specific fund designated for Association activity.

The Treasurer of the Association, who also serves as Treasurer of the Fiscal Agent, purchases specific investments and maintains a separate checking account for the Association.

During 2008, investments of the Association were limited to federal agency securities, commercial paper and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). These investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC 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 shares price which is the price the investment could be sold for on June 30, 2008.

For purposes of the *Statement of Net Assets* and the *Statement of Cash Flows*, investments of the Association with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. In addition, the Associations policy is to treat all of its short-term, highly liquid investments (such as STAR Ohio) as investments and not as cash equivalents.

An analysis of the Association's cash and investments at fiscal year-end is provided in Note 3.

**E. Budgetary Process**

The member school districts of the Association are required by Ohio law to adopt an annual budget. The Association itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**F. Prepayments**

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amounts is recorded at the time of the payment by the Association and the expense is recorded when used. The Association has prepaid items of \$3,041 at June 30, 2008.

**G. 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 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, 2008.

**H. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**I. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Trustees and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008.

**NOTE 3 - CASH AND INVESTMENTS**

In accordance with the Constitution of the Association, the investment of the Association funds shall be subject to the laws of the State of Ohio concerning the investment and management of public funds, particularly Chapter 135 of the Ohio Revised Code, and are the responsibility of the Fiscal Agent. The following disclosures relate to the deposits and investments of the Association.

**A. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all Association deposits was \$969,654. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$1,293,183 of the Association's bank balance of \$1,493,183 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Deposit Insurance Corporation.

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 3 - CASH AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the Association's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Association. The Association has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**B. Investments**

As of June 30, 2008, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
Commercial paper	\$ 993,976	\$ 993,976	\$ -	\$ -	\$ -
FHLMC bonds	2,492,650	-	-	-	2,492,650
FNMA bonds	1,992,273	-	-	-	1,992,273
FNMA discount note	1,492,715	1,492,715	-	-	-
STAR Ohio	5,432,118	5,432,118	-	-	-
	<u>\$ 12,403,732</u>	<u>\$ 7,918,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,484,923</u>

The weighted average maturity of investments is 0.69 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Association's investment policy limits investment portfolio maturities to five years or less. Commercial paper must mature within 180 days.

*Credit Risk:* The Association's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Association's investments in commercial paper were rated A1+ and P1 by Standard & Poor's and Moody's Investor Services, respectively. Commercial paper must be rated in the highest classification by at least two nationally recognized rating services. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized rating service.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Association's name. The Association has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 3 - CASH AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The Association places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Association at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Commercial paper	\$ 993,976	8.02
FHLMC	2,492,650	20.10
FNMA	1,992,273	16.06
FNMA discount note	1,492,715	12.03
STAR Ohio	<u>5,432,118</u>	<u>43.79</u>
	<u>\$ 12,403,732</u>	<u>100.00</u>

Investment income consisted of the following for the year ended June 30, 2008:

Net Unrealized and Realized Gain on Investments	\$ 12,328
Interest and Dividends	<u>474,100</u>
<b>Total</b>	<b><u>\$486,428</u></b>

**NOTE 4 - 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, 2008 totaling \$3,885,900, 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 lag between the date a claim is incurred and paid.

Changes in claims activity by plan for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2008	\$ 3,783,700	\$ 19,384,841	\$(19,282,641)	\$ 3,885,900
2007	4,082,725	19,353,859	(19,652,884)	3,783,700

**NOTE 5 - 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 from the Internal Revenue Service and the Association believes that the plan continues to qualify and operate as designated.



**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 6 - LITIGATION**

The Association is not party to any litigation.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2008 consisted of accounts (administrative fees) and accrued interest of investments of the Association. These receivables are considered collectible in full and are expected to be collected in the subsequent year. The amount of accounts and accrued interest receivable at June 30, 2008 were \$42,048 and 2,722, respectively.

**NOTE 8 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2008, the Association has implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues".

GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Association.

**NOTE 9 – RELATED PARTY TRANSACTION**

The Fiscal Agent of the Association is a member district of the Association. The Fiscal Agent is responsible for administering the financial transactions of the Association and is compensated for these services. The total amount paid to the Fiscal Agent for the services provided for the year ended June 30, 2008 was \$58,374.



5580 Monroe Street • Sylvania, OH 43560

## INDEPENDENT AUDITORS' 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

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

We have audited the financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of and for the year ended June 30, 2008, and have issued our report thereon dated March 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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 the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 Association'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 Association's financial statements that is more than inconsequential will not be prevented or detected by the Association'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 Association'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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Association's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 12, 2009





**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  
JUNE 2, 2009**