

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

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Board of Directors
Huron-Erie School Employees Insurance Association
4918 Milan Road
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Huron-Erie School Employees Insurance Association, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2022 through June 30, 2023. 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 Employees Insurance Association is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 02, 2024

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

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Independent Auditor's Report

Huron-Erie School Employee Insurance Association
Erie County
4918 Milan Road
Sandusky, Ohio 44870

To the Members of the Board of Directors:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Huron-Erie School Employee Insurance Association, Erie County, Ohio, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Huron-Erie School Employee Insurance Association's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron-Erie School Employee Insurance Association, as of June 30, 2023, and the changes in its financial position, and its cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Huron-Erie School Employee Insurance Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Huron-Erie School Employee Insurance Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Huron-Erie School Employee Insurance Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Huron-Erie School Employee Insurance Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Huron-Erie School Employee Insurance Association has not presented the revenue and claims development information that the GASB has determined is necessary to supplement although not required to be part of the basic financial statements. Management has omitted the supplementary claim information that the GASB requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2024, on our consideration of the 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 solely 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 effectiveness of the Huron-Erie School Employee Insurance Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Huron-Erie School Employee Insurance Association's internal control over financial reporting and compliance.



Julian & Grube, Inc.
February 16, 2024

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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, 2023. 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 2023 are as follows:

- In total, net position was \$7,930,769 at June 30, 2023. This represents a decrease of \$3,018,553 or 27.57% from fiscal year 2022.
- The Association had operating revenues of \$36,498,660 and operating expenses of \$39,935,991 for fiscal year 2023. The Association had \$418,778 in interest revenue. This figure includes interest earned plus any changes in the fair value of investments held by the Association. Operating loss and the decrease in net position for the fiscal year were \$3,437,331 and \$3,018,553, respectively.

Using the Basic Financial Statements

This annual report consists of a series 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 position and statement of revenues, expenses, and changes in net position 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 Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, “How did we do financially during fiscal 2023?” The statement of net position and the statement of revenues, expenses, and changes in net position 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 will take into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Association’s net position and changes in those assets. This change in net position 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 position and statement of revenues, expenses, and changes in net position 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.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

The table below provides a summary of the Association's net position for 2023 and 2022.

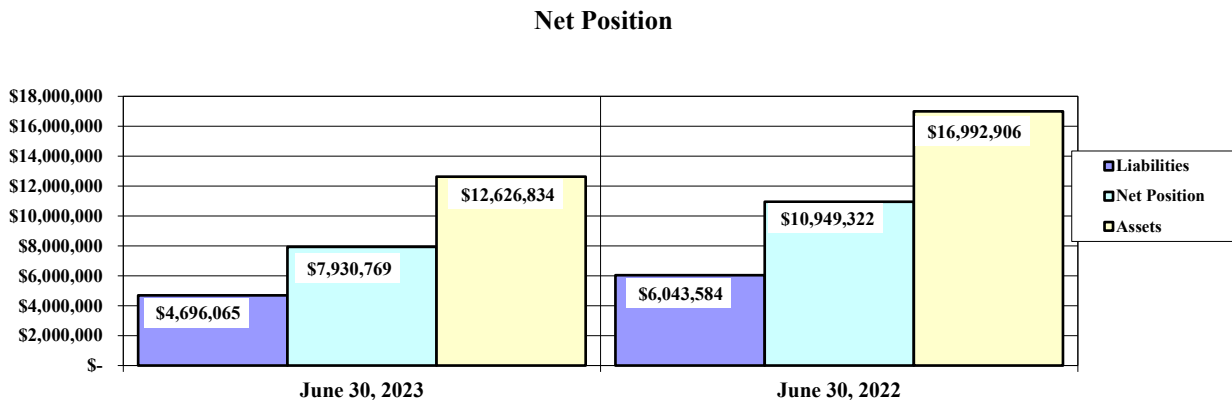
	Net Position	
	<u>2023</u>	<u>2022</u>
<u>Current assets:</u>		
Cash	\$ 1,716,852	\$ 1,874,594
Investments	9,523,594	14,114,307
Receivables:		
Accounts	1,361,265	991,264
Prepayments	<u>25,123</u>	<u>12,741</u>
Total current assets	<u>12,626,834</u>	<u>16,992,906</u>
<u>Current liabilities:</u>		
Accounts payable	93,545	52,155
Unearned revenue	713,994	635,399
Claims payable	<u>3,888,526</u>	<u>5,356,030</u>
Total current liabilities	<u>4,696,065</u>	<u>6,043,584</u>
<u>Net position:</u>		
Unrestricted	<u>\$ 7,930,769</u>	<u>\$ 10,949,322</u>

Net position decreased by \$3,018,553 or 27.57%.

Unearned revenues, which represent participant contributions paid to the Association for fiscal year 2023, increased approximately \$79,000. The benefit obligations liability decreased \$1,467,504 based upon the report of the Association's independent actuary.

The Association's investment income increased by \$373,339 during fiscal year 2023 when compared to fiscal year 2022. This increase was due to the increase in interest rates on the Association's investments.

The chart below shows a breakdown of the Association's assets, liabilities and net position for 2023 versus 2022:



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

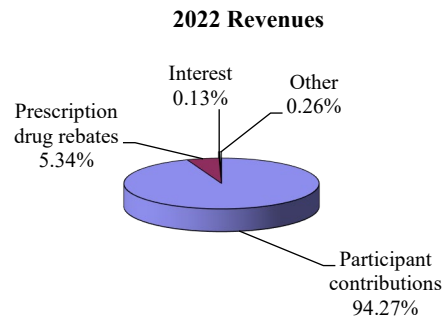
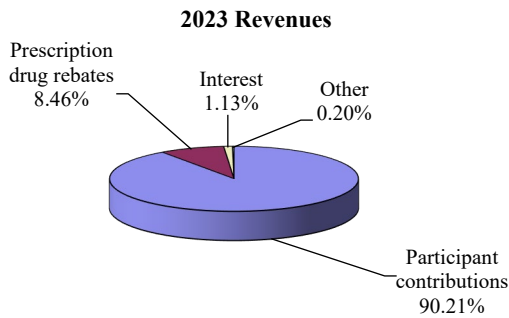
The table below shows the changes in net position for fiscal year 2023 and 2022.

Change in Net Position

	<u>2023</u>	<u>2022</u>
<u>Revenues:</u>		
Participant contributions	\$ 33,304,184	\$ 31,449,332
Prescription drug rebates	3,122,127	1,780,619
Investment income	418,778	45,439
Other	<u>72,349</u>	<u>85,918</u>
Total revenue	<u>36,917,438</u>	<u>33,361,308</u>
<u>Expenses:</u>		
Claims	36,810,981	33,046,080
Third party administration fees	1,065,879	1,049,844
Insurance premiums	1,256,565	1,107,694
Professional fees	772,794	497,880
Miscellaneous	<u>29,772</u>	<u>30,489</u>
Total expenses	<u>39,935,991</u>	<u>35,731,987</u>
Change in net position	(3,018,553)	(2,370,679)
Net position at beginning of year	<u>10,949,322</u>	<u>13,320,001</u>
Net position at end of year	<u>\$ 7,930,769</u>	<u>\$ 10,949,322</u>

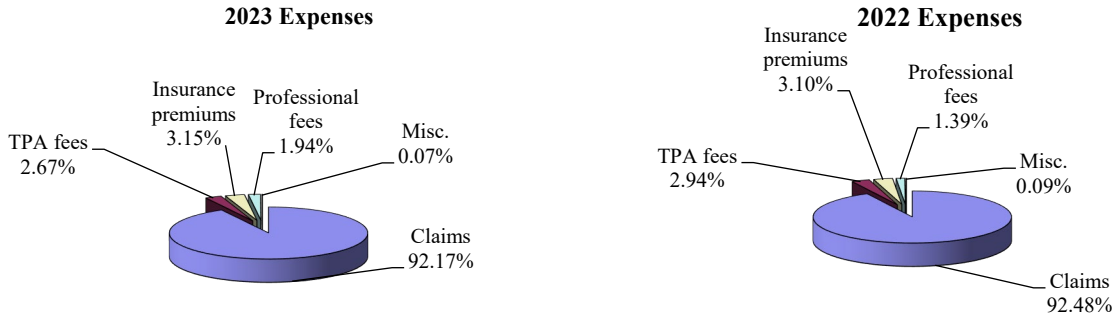
During 2023, the Association saw an approximately \$3.8 million increase in claims expenses. Another significant change is the increase of approximately \$1.3 million in prescription drug rebate revenue from 2022 to 2023. In total, revenues increased 10.66% from fiscal year 2022 and expenses increased 11.77% from fiscal year 2022.

The charts below reflect the percentage of the revenues and expenses in 2023 versus 2022:



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**



Current Financial Related Activities

The Association developed and approved wellness plans that all districts have negotiated to. Currently all thirteen districts are under one of these plans. A Premium Savings Optional Plan (PSP) can be offered that includes higher deductibles, coinsurance maximums, mandatory working spouse and annual health screenings. Penalties for member-requested (dispense as written) brands when generic is available would include member pays cost difference between generic and brand name plus brand name copayments. This plan is strictly optional. Districts can negotiate to this plan or offer it as an option to their employees. 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 may be included. As an incentive, districts that have the Association’s working spouse language have lower 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 Association’s Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Betty Schwiefert, HESE Treasurer, North Point ESC, 4918 Milan Road, Sandusky, Ohio 44870 or by calling (419) 627-3913.

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

STATEMENT OF NET POSITION
JUNE 30, 2023

Current assets:	
Cash	\$ 1,716,852
Investments	9,523,594
Receivables:	
Accounts	1,361,265
Prepayments.	<u>25,123</u>
Total current assets	<u>12,626,834</u>
 Current liabilities:	
Accounts payable	93,545
Unearned revenue.	713,994
Claims payable	<u>3,888,526</u>
Total current liabilities	<u>4,696,065</u>
 Net position:	
Unrestricted	<u>7,930,769</u>
Total net position	<u><u>\$ 7,930,769</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 POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Operating revenues:	
Participant contributions	\$ 33,304,184
Prescription drug rebates	3,122,127
Other	<u>72,349</u>
Total operating revenues	<u>36,498,660</u>
 Operating expenses:	
Claims	36,810,981
Third party administration fees.	1,065,879
Insurance premiums	1,256,565
Professional fees.	772,794
Miscellaneous	<u>29,772</u>
Total operating expenses	<u>39,935,991</u>
Operating loss.	<u>(3,437,331)</u>
 Nonoperating revenues:	
Investment income	<u>418,778</u>
Total nonoperating revenues	<u>418,778</u>
Change in net position.	(3,018,553)
Net position, July 1	<u>10,949,322</u>
Net position, June 30.	<u><u>\$ 7,930,769</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 CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:	
Cash received from participants.	\$ 33,376,022
Cash received from prescription drug rebates.	2,758,820
Cash received from other operations	72,412
Cash payments for claims	(38,278,485)
Cash payments for third party administration fees	(1,065,879)
Cash payments for insurance premiums	(1,255,787)
Cash payments for professional fees	(744,402)
Cash payments for miscellaneous	(29,934)
	<hr/>
Net cash used in operating activities.	(5,167,233)
	<hr/>
Cash flows from investing activities:	
Investments purchased	(9,523,594)
Investments sold	14,114,307
Interest and dividends received.	418,778
	<hr/>
Net cash provided by investing activities	5,009,491
	<hr/>
Net decrease in cash	(157,742)
Cash, July 1.	1,874,594
Cash, June 30.	\$ 1,716,852
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,437,331)
Changes in assets and liabilities:	
(Increase) in accounts receivable.	(370,001)
(Increase) in prepayments	(12,382)
Increase in accounts payable	41,390
Increase in unearned revenue.	78,595
(Decrease) in benefit obligations	(1,467,504)
	<hr/>
Net cash used in operating activities.	\$ (5,167,233)
	<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, 2023

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)(9) 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 stop loss insurance. The specific stop loss limit of \$400,000 represents the maximum amount of claims to be paid annually by the Association per participant.

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 North Point 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 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'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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Association. For the Association, this consists of a single enterprise fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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; 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Association has no component units. The basic financial statements of the reporting entity include only those of the Association (the primary government).

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.

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 position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage, prescription drug rebates, and other revenues. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

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 purchases specific investments and maintains a separate checking account for the Association.

During 2023, investments of the Association were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Association measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24-hour notice in advance of all deposits and withdrawals exceeding \$100 million is encouraged. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

For purposes of the statement of net position 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 Association's 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.

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2023, 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 \$25,123 at June 30, 2023.

G. Unearned Revenue

Unearned revenues represent premiums paid in advance by Association members at June 30, 2023. The premiums will be recognized as revenue in the month to which they pertain.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

H. Net Position

Net position represents the difference between assets and liabilities. Net position is 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 position at June 30, 2023.

I. 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.

J. 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 year 2023.

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, 2023, the carrying amount of all Association deposits was \$1,716,852. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2023, \$1,466,852 of the Association's bank balance of \$1,716,852 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Association will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Association has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Association and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2023, the Association's financial institutions did not participate in the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Association to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 3 - CASH AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2023, the Association had the following investments and maturities:

<u>Investment type</u>	<u>NAV</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 9,523,594	\$ 9,523,594

As of June 30, 2023, STAR Ohio’s average days to maturity was 38.5 days.

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.

Credit Risk: 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. The Association’s investment policy does not specifically address credit risk beyond requiring the Association to only invest in securities authorized by State statute.

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, 2023:

<u>Investment type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	\$ 9,523,594	100.00

Investment income consisted of the following for the fiscal year ended June 30, 2023:

Interest and dividends	\$ 418,778
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NOTE 4 - CLAIMS PAYABLE

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, 2023 totaling \$3,888,526, 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 4 - CLAIMS PAYABLE - (Continued)

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2023	\$ 5,356,030	\$ 36,810,981	\$ (38,278,485)	\$ 3,888,526
2022	6,106,441	33,046,080	(33,796,491)	5,356,030

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.

NOTE 6 - LITIGATION

The Association is not party to any litigation.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2023 consisted of accounts (COBRA premiums, prescription drug rebates and subrogation). These receivables are considered collectible in full and are expected to be collected in the subsequent year. The amount of accounts receivable at June 30, 2023 were \$1,361,265.

NOTE 8 - 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 fiscal year ended June 30, 2023 was \$28,906.

NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2023, the Association has implemented GASB Statement No. 91, "Conduit Debt Obligations", GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements", GASB Statement No. 96, "Subscription Based Information Technology Arrangements", certain questions and answers of GASB Implementation Guide 2021-1 and certain paragraphs of GASB Statement No. 99, "Omnibus 2022".

GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The implementation of GASB Statement No. 91 did not have an effect on the financial statements of the Association.

GASB Statement No. 94 is to improve financial reporting by addressing issues related to public-private and public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. The implementation of GASB Statement No. 94 did not have an effect on the financial statements of the Association.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The implementation of GASB Statement No. 96 did not have an effect on the financial statements of the Association.

GASB Implementation Guide 2021-1 provides clarification on issues related to previously established GASB guidance. The implementation of GASB Implementation Guide 2021-1 did not have an effect on the financial statements of the Association.

GASB Statement No. 99 to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation of GASB Statement No. 99 did not have an effect on the financial statements of the Association.

**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***

Huron-Erie School Employee Insurance Association
Erie County
4918 Milan Road
Sandusky, Ohio 44870

To the Members of the Board of Directors:

We have audited, in accordance with the 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, the financial statements of the Huron-Erie School Employee Insurance Association, Erie County, Ohio, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Huron-Erie School Employee Insurance Association's basic financial statements, and have issued our report thereon dated February 16, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Huron-Erie School Employee Insurance Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Huron-Erie School Employee Insurance Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Huron-Erie School Employee Insurance Association's internal control.

A *deficiency in internal control* 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 and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Huron-Erie School Employee Insurance Association's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Huron-Erie School Employee Insurance Association

Erie County

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*

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huron-Erie School Employee Insurance Association's financial statements are free from 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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Huron-Erie School Employee Insurance Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Huron-Erie School Employee Insurance Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.

February 16, 2024

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OHIO AUDITOR OF STATE KEITH FABER



HURON ERIE SCHOOL EMPLOYEE ASSOCIATION

ERIE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 4/16/2024

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov