



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the accompanying financial statements of the School Employees Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the years ended June 30, 2001, 2000 and 1999. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Consortium prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the School Employees Insurance Consortium, Ross County, Ohio as of June 30, 2001, 2000 and 1999 and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2001 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 grants for the year ended June 30, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of that audit.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

November 14, 2001

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH BALANCE
FOR THE YEARS ENDED JUNE 30, 2001, 2000 AND 1999**

	2001	2000	1999
Cash Receipts:			
Charges for Services	\$13,628,073	\$11,463,668	\$10,290,215
Earnings on Investments	11,391	10,225	27,818
Miscellaneous Receipts	<u>0</u>	<u>0</u>	<u>17,958</u>
Total Cash Receipts	13,639,464	11,473,893	10,335,991
 Cash Disbursements:			
Re-Insurance Payments and Administrative Fees	1,195,548	1,159,382	808,284
Claims Payments	12,278,886	10,368,238	9,820,620
Miscellaneous	<u>0</u>	<u>0</u>	<u>2,311</u>
Total Cash Disbursements	<u>13,474,434</u>	<u>11,527,620</u>	<u>10,631,215</u>
 Total Cash Receipts Over (Under) Cash Disbursements	 165,030	 (53,727)	 (295,224)
Beginning Cash Balance	<u>\$202,053</u>	<u>\$255,780</u>	<u>\$551,004</u>
Ending Cash Balance	<u><u>\$367,083</u></u>	<u><u>\$202,053</u></u>	<u><u>\$255,780</u></u>

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

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Ross County School Employees Insurance Consortium (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 purpose 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, 2001, sixteen school districts were participating in the Consortium. Two school districts rescinded their memberships with the Consortium in September 2000.

The Board of Directors appoints a member district as the Fiscal Agent for the Consortium. The Treasurer of the Fiscal Agent shall be the Treasurer of the Consortium. The Westfall Local School District Treasurer is the appointed Fiscal Agent for the Consortium.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

All revenue received by the Consortium is placed in one of two bank accounts. Monies are maintained in these accounts or temporarily used to purchase short term investments. Investments were limited to a Repurchase Agreement. Nonparticipating investment contracts such as repurchase agreements and negotiable certificates of deposit are reported at cost.

2. EQUITY IN CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Demand deposits	\$ 7,104	\$ 62,013	\$ 86,595
Repurchase Agreement	<u>359,979</u>	<u>140,040</u>	<u>169,185</u>
Total deposits and investments	<u>\$ 367,083</u>	<u>\$ 202,053</u>	<u>\$ 255,780</u>

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001, 2000 AND 1999
(Continued)**

2. EQUITY IN CASH AND INVESTMENTS (Continued)

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool. The Consortium did not enter into a depository agreement with the financial institution where its demand deposit accounts were held for the fiscal year ended June 30, 2001.

Investments: Westfall Local School District's agent holds securities collateralizing the repurchase agreements. The securities are not in the District's name.

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 and dental 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 select qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors also purchase stop loss coverage for claims in excess of a set amount both for individual claims (\$65,000) and in the pools aggregate (\$13,416,821).

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 and dental insurance premiums, and their proportionate share of the administrative cost of the Consortium. The actual balance of each member school's account is determined on a triennial basis. If a member is in a deficit position, one-half of the deficit is due immediately or can be paid over the next three years including interest of 10 percent. Prepayments of anticipated shortages may be made by member schools.

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

4. CLAIMS LIABILITY

The reported but not paid (RBNP) and incurred but not reported (IBNR) claims under the health plan at June 30 (the liability) are used by the Consortium to help determine the rates to charge members. The liability as of June 30 follows:

Year	Claims Reported But Not Yet Paid at June 30	Estimated Claims Incurred But Not Reported at June 30	Total Liability at June 30
2001	\$2,065,556	\$803,935	\$2,869,491
2000	\$1,738,446	\$976,518	\$2,714,964
1999	\$235,668	\$1,556,712	\$1,792,380

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001, 2000 AND 1999
(Continued)**

4. CLAIMS LIABILITY (Continued)

The trend data above is useful in assessing the adequacy of rates the Consortium charges its members. An increasing liability indicates current rates are not sufficient to cover liabilities that members have incurred. (See Note 6)

The Consortium did not use an actuary to estimate the liability and determine if an adequate reserve has been established by its member districts. The Consortium estimated claims incurred but not reported based on historical trends.

5. CASH POSITION OF MEMBER SCHOOL DISTRICTS

At June 30, the members of the Consortium had the following respective cash position:

Member District	2001	2000	1999
Adena LSD	(\$132,840)	(\$53,086)	(\$149,342)
Amanda Clearcreek LSD	141,184	236,460	252,101
Blanchester LSD	2,945	(431,660)	(292,973)
Bright LSD	(214,120)	(34,850)	(34,547)
Circleville CSD	58,106	24,941	53,447
Huntington LSD	351,404	303,743	176,954
Logan Elm LSD	56,099	91,480	22,108
Lynchburg-Clay LSD	(222,733)	(72,742)	(28,683)
Madison Plains LSD	86,470	(1,398)	59,763
Paint Valley LSD	(57,913)	68,479	122,110
Pickaway-Ross JVSD	(223,447)	(452,557)	(391,363)
Ross ESC	335,110	237,610	183,152
Scioto Valley LSD	48,681	11,235	108,859
South Point LSD	(1,083,490)	(936,614)	(618,741)
Teays Valley LSD	34,203	155,533	96,376
Union Scioto LSD	535,637	575,876	392,137
Westfall LSD	446,443	273,747	248,583
Zane Trace LSD	189,269	201,172	55,839
Total with Districts	\$351,008	\$197,369	\$255,780
Unallocated	\$16,075	\$4,684	\$0
Consortium Cash Balance	\$367,083	\$202,053	\$255,780

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001, 2000 AND 1999
(Continued)**

5. CASH POSITION OF MEMBER SCHOOL DISTRICTS (Continued)

Note: The member amounts above represent each members' premium payments made to the Consortium reduced by claims paid as of June 30, exclusive of presented but unpaid claims (IBNP) and incurred but not reported (IBNR) as of June 30. The unallocated amount is interest the Consortium has earned on investments, but not allocated to the member districts.

6. CLAIMS INCURRED BUT NOT PAID

The Consortium's current cash position does not permit claims to be paid when presented. May and June 2001 billed claims, (See Note 4) have not been paid as of June 30, 2001.

The Consortium has developed a plan, with several components, to enable it to pay claims timely.

1. In May 2001, the Board of Directors increased premiums by fifteen percent, effective July 1, 2001.
2. Several member district's triennial reconciliations are to occur on July 1, 2001. Those member districts in a negative fiscal position, as of June 30, 2001, are required to reimburse the Consortium half of the experienced deficit. The Consortium expects to receive money from Bright Local School District and Lynchburg-Clay Local School District.
3. The Consortium accepted two member withdrawals from the Consortium effective September, 2000. Blanchester Local School District has paid its liability as of June 30, 2001. South Point Local School District has entered into an agreement with the Consortium to pay its liability as of June 30, 2001 in semi-annual installments through December, 2005.
4. The Board of Directors passed an Amendment to the By-Laws to have quarterly reconciliations. Under this Amendment, any member district, who has a negative cash balance that is more than 50% of the yearly premiums, must pay the Consortium sufficient funds to bring their cash balance to at least 50% of their yearly premiums. As of June 30, 2001, no member district had fallen below an amount 50% of their respective premiums.
5. The Board of Directors retained an actuarial consultant, Joseph, James, & Associates, to establish future Consortium premiums. The Consortium currently sets premiums based on what the amounts were in the past; not on actuarial determinations. The actuary has done some research on the Consortium and is working toward setting premiums using actuarial numbers and methods.

The Board of Directors believe these events will enhance the Consortium's ability to pay claims when they become due.

7. SUBSEQUENT EVENT

On July 6, 2001 the Consortium entered into a settlement agreement with South Point Local School District and received an installment payment of \$200,000 toward the liability that was outstanding on June 30, 2001.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the accompanying financial statements of the School Employees Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the year ended June 30, 2001 and have issued our report thereon dated November 14, 2001. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items number 2001-60771-001 and 2001-60771-002. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated November 14, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Consortium in a separate letter dated November 14, 2001.

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

JIM PETRO
Auditor of State

November 14, 2001

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2001-60771-001
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Depository Agreement

Ohio Rev. Code Section 135.12 states each governing board... shall estimate the probable amount of public monies to be so deposited in and among the eligible public depositories applying therefor at the beginning of the period. Such board shall award the inactive deposits of public monies subject to its control to the eligible institution or institutions offering to pay the highest rate of interest permissible at the commencement of the period of designation on like time certificates of deposit or savings or deposit accounts, in the amount, as to each, specified in the application of the institution therefor.

The Consortium did not enter into a depository agreement with the financial institution holding its public funds. Throughout the fiscal year ended June 30, 2001, the Consortium deposited in excess of \$10 million dollars into a demand deposit account.

We recommend the Consortium obtain a depository agreement with the financial institution for which its deposit are held

Finding Number	2001-60771-002
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Establishment of a Reserve (Liability)

Ohio Rev. Code Section 9.833 requires individual, self-insured governments or joint self-insured health-care programs to calculate amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year-end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year.

This report is not filed with any office, including the Auditor of State; it should be retained by the government and be made available upon request. An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries. "Reserved" means liabilities measured in accordance with accepted actuarial principles. For the Consortium, this may require separate evaluations and reserve determinations for each member district.

The Consortium has not commissioned an actuarial to calculate a reserve for the health care benefit liability, for the years ended June 30, 2001, 2000 or 1999. In September 2001, the Board of Directors retained an actuarial consultant, Joseph, James & Associates, to establish future Consortium premiums.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Status	Not Corrected Explanation/Re- issued Finding Number
2000-60771-001	Consortium did not enter into a depository agreement with their financial institution in accordance with Ohio Rev. Code Section 135.07.	Not Corrected	Consortium is in the process of obtaining such agreement. This was re-issued as Finding No. 2001-60771-001.
Management Letter Comment	Consortium had not commissioned an actuary to estimate premiums or a reserve for its members.	Not Corrected	Reissued as material noncompliance as Finding No. 2001-60771-002.



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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 18, 2001**