

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

REGULAR AUDIT

JULY 1, 2009 – JUNE 30, 2010





Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the School Employees Insurance Consortium, Ross County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 8, 2010

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

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INDEPENDENT AUDITORS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statement of the School Employees Insurance Consortium, Ross County, Ohio (the Consortium) as of and for the fiscal year ended June 30, 2010. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Consortium has prepared this financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the fund the accompanying financial statement presents, GAAP requires presenting entity-wide statements and also presenting the Consortium's larger (i.e. major) funds separately. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require the Consortium to reformat its statements. The Consortium has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the fiscal year ended June 30, 2010 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2010, or its changes in financial position or cash flows, where applicable for the fiscal year ended June 30, 2010.

Wilson, Shannon & Snow, Inc.

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Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the fund cash balance of the School Employees Insurance Consortium, Ross County, as of June 30, 2010, and its cash receipts and disbursements for the fiscal year then ended on the accounting basis Note 1 describes.

The Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2010, on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Wilson, Shuman & Snow, Inc.

November 1, 2010

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Operating Cash Receipts:

Charges for Services	\$ 14,261,852
Administrative Fee Reserve Contribution	280,495
Other Revenue	<u>88,496</u>

Total Operating Cash Receipts 14,630,843

Operating Cash Disbursements:

Purchased Services	1,079,553
Claims	<u>11,527,532</u>

Total Operating Cash Disbursements 12,607,085

Operating Income 2,023,758

Non-Operating Cash Receipts (Disbursements):

Earnings on Investments	20,692
Payments to Non-Participating Districts	<u>(8,204,211)</u>

Total Non-Operating Cash Receipts (8,183,519)

Net Cash Receipts Over/(Under) Cash Disbursements (6,159,761)

Cash Balance, July 1 8,204,211

Cash Balance, June 30 **\$ 2,044,450**

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

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The School Employees Insurance Consortium, Ross County, Ohio (the Consortium) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The Consortium administers a cooperative health insurance program. The Consortium is a body politic and corporate established for the purposes of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Board of Directors is the legislative and managerial body of the Consortium. The Board of Directors is composed of a representative from member school districts who has been appointed by their respective school district (normally the Superintendent). At June 30, 2010, seven school districts were actively participating in the Consortium. The Consortium had no new school districts join membership and four school districts rescind membership during fiscal year 2010.

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

B. Basis of Accounting

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

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

C. Cash

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

The Consortium values money market funds at cost.

D. Budgetary Process

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

E. Member Contributions

Member Districts contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Board of Directors. The premiums are recorded and pooled by the Fiscal Agent in a single fund from which eligible claims are paid for Member School District employees and their covered dependents.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Member Contributions (Continued)

Each Member School District assumes the risks of all other members, to the extent contributions by that member District are paid into the Consortium's fund.

The Fiscal Agent tracks Member School District's contributions made to the single fund and the disbursements are paid for the Member School District's type of coverage.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2010
Demand deposits	<u>\$429,636</u>
Total deposits	<u>429,636</u>
Money market fund	<u>1,614,814</u>
Total investments	<u>1,614,814</u>
Total deposits and investments	<u><u>\$2,044,450</u></u>

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

3. RISK MANAGEMENT

The Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health insurance program. The Consortium, which is open to any Board of Education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide a health insurance program that is adequate to meet the needs of each member school district under its benefit plan for employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both for individual claims and in the pool's aggregate.

A. Medical and Prescription Benefits

The Consortium contracts with a third party administrator, Medical Mutual of Ohio, Inc. to process and pay health and prescription claims incurred by its members. Member School Districts pay monthly premiums to the Consortium's Fiscal Agent which are recorded in a single fund for accounting purposes. The Fiscal Agent then wires claim payments to the third party administrator weekly for health and prescription claims processed.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2010
(Continued)**

3. RISK MANAGEMENT (Continued)

B. Stop-Loss Coverage

The Consortium employs stop-loss coverage to reduce its risk that large losses may be incurred on medical claims. This allows the Consortium to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

C. Actuarial Valuation

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in Actuarial Standards of Practice No. 5, *Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

D. Member School District Withdrawal

Member school districts may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. A Member School District may be subject to *mandatory withdrawal* if the member fails to remit any of its monthly contributions within thirty days after the same unless 1) The Member School District has petitioned the Board of Directors for an extension of time for payment, and 2) The Board of Directors has by resolution approved an extension to a date certain. If an extension is not authorized the Member School District shall be effective retroactive to the first day of the month on which the Member School District failed to remit its monthly contributions. A Member School District may *voluntary withdraw* only after providing the Fiscal Agent 180 days notice and also authorization by the Board of Directors. Upon the opinion of the Board of Directors, if the amount of money in the Consortium reserves are adequate, the Board of Directors shall authorize payment to the withdrawing Member as follows: 1) If a Member School District leaves less than three years from the date it joined the Consortium, the Consortium shall keep 100% of the Member School District's attributable reserves; 2) If a Member School District leaves three to ten years from the date it joined the Consortium, the Consortium shall keep 50% of the Member's attributable reserves; and 3) If a Member School District leaves more than ten years from the date it joined the Consortium, the Consortium shall keep 25% of the Member School District's attributable reserves. Authorization of such disbursement is solely within the discretion of the Board of Directors and shall not be unreasonably withheld.

4. CLAIMS LIABILITY

The incurred but not reported (IBNR) claims under the health plan at June 30, 2010 (the liability) are used by the Consortium to help determine the rates to charge members. A comparison of cash and investments to the actuarially-measured liability as of June 30 follows:

	2010	2009	2008
Cash and investments	\$2,044,450	\$8,204,211	\$7,043,350
Actuarial liabilities	1,511,800	1,552,000	2,574,000

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2010
(Continued)**

4. CLAIMS LIABILITY - CONTINUED

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

The Consortium used an actuary to estimate the liability and determine if an adequate reserve has been established by its member school districts. The Consortium has implemented the equalized rates (pooling method) to account for Member claims and maintain adequate reserve balances effective July 1, 2009.

5. JOINTLY GOVERNED ORGANIZATION

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

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



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

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

To the Board of Directors:

We have audited the financial statement of the School Employees Insurance Consortium, Ross County (the Consortium) as of and for the fiscal year ended June 30, 2010 which collectively comprise the Consortium's financial statement, and have issued our report thereon dated November 1, 2010, wherein we noted the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Consortium's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Consortium's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Consortium's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Wilson, Shannon & Snow, Inc.

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School Employees Insurance Consortium
Ross County
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*
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However, we did note another matter that we reported to the Consortium's management in a separate letter dated November 1, 2010.

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

Wilson, Shuman & Snow, Inc.

November 1, 2010



Mary Taylor, CPA
Auditor of State

SCHOOL EMPLOYEES INSURANCE CONSORTIUM

ROSS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2010**