

***HURON-ERIE SCHOOL EMPLOYEE
INSURANCE ASSOCIATION***

ERIE COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2012

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Huron-Erie School Employee Insurance Association, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 23, 2013

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**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION
ERIE COUNTY
AUDIT REPORT
For the Year Ended June 30, 2012**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT

Huron-Erie School Employee Insurance Association
2900 Columbus Avenue
Sandusky, OH 44870

To the Board of Directors:

We have audited the accompanying statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the Huron-Erie School Employee Insurance Association, Erie County, Ohio (the "Association") as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2012, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 on our consideration of the 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. 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

The Association has not presented the revenue and claims development information that the Governmental Accounting Standards Board (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 require 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, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Charles Harris Associates

Charles E. Harris & Associates, Inc.

December 13, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

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, 2012. 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 2012 are as follows:

- In total, net assets were \$16,097,871 at June 30, 2012. This represents a decrease of \$744,362 or 4.42% from fiscal year 2011.
- The Association had operating revenues of \$22,642,942 and operating expenses of \$23,460,100 for fiscal year 2012. The Association had \$72,796 in interest revenue. This figure includes interest earned plus any changes in the fair market value of investments held by the Association. Operating loss and the change in net assets for the fiscal year were (\$817,158) and (\$744,362), 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 assets and statement of revenues, expenses, and changes in net assets provide information about the activities of the Association, including all short-term and long-term financial resources and obligations.

Reporting the Association's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal 2012?" The statement of net assets and the statement of revenues, expenses, and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting 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 assets and the statement of revenues, expenses and changes in net assets report the Association's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Association as a whole, the financial position of the Association has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Association's statement of net assets and statement of revenues, expenses, and changes in net assets can be found on pages 7-8 of this report. The statement of cash flows provides information about how the Association finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

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 11-16 of this report.

The table below provides a summary of the Association's net assets for 2012 and 2011.

	Net Assets	
	<u>2012</u>	<u>2011</u>
<u>Current assets:</u>		
Cash	\$ 3,358,179	\$ 2,615,640
Investments	16,503,115	17,736,565
Receivables:		
Accounts	209,433	27,280
Accrued interest	43,097	32,574
Prepayments	<u>3,094</u>	<u>6,434</u>
Total current assets	<u>20,116,918</u>	<u>20,418,493</u>
<u>Current liabilities:</u>		
Accounts payable	14,541	12,524
Unearned revenue	949,506	512,736
Benefit obligations	<u>3,055,000</u>	<u>3,051,000</u>
Total current liabilities	<u>4,019,047</u>	<u>3,576,260</u>
<u>Net assets:</u>		
Unrestricted	<u>\$ 16,097,871</u>	<u>\$ 16,842,233</u>

Net assets decreased by \$744,362 (4.42%) primarily due to (1) an increase in claims expense of approximately \$2.1 million; and (2) a decrease in participant contributions because of a premium holiday voted on by the Association for December 2011. The Board of Trustees voted for a premium holiday (approximately \$2,000,000) because the Association has good reserves. The Association expects to use a portion of the reserves during fiscal year 2013 as well.

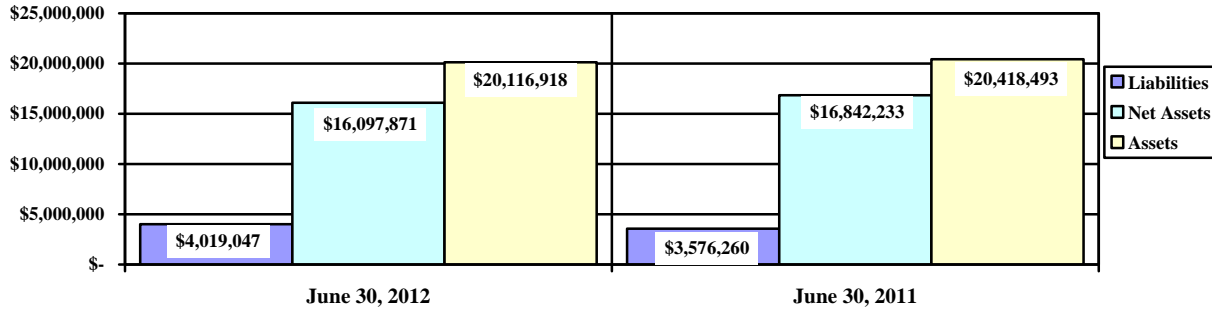
Unearned revenues, which represent participant contributions paid to the Association for fiscal year 2013, increased approximately \$437,000. The benefit obligations liability only increased \$4,000 based upon the report of the Association's independent actuary.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The chart below shows a breakdown of the Association's assets, liabilities and net assets for 2012 versus 2011:

Net Assets



The table below shows the changes in net assets for fiscal year 2012 and 2011.

Change in Net Assets

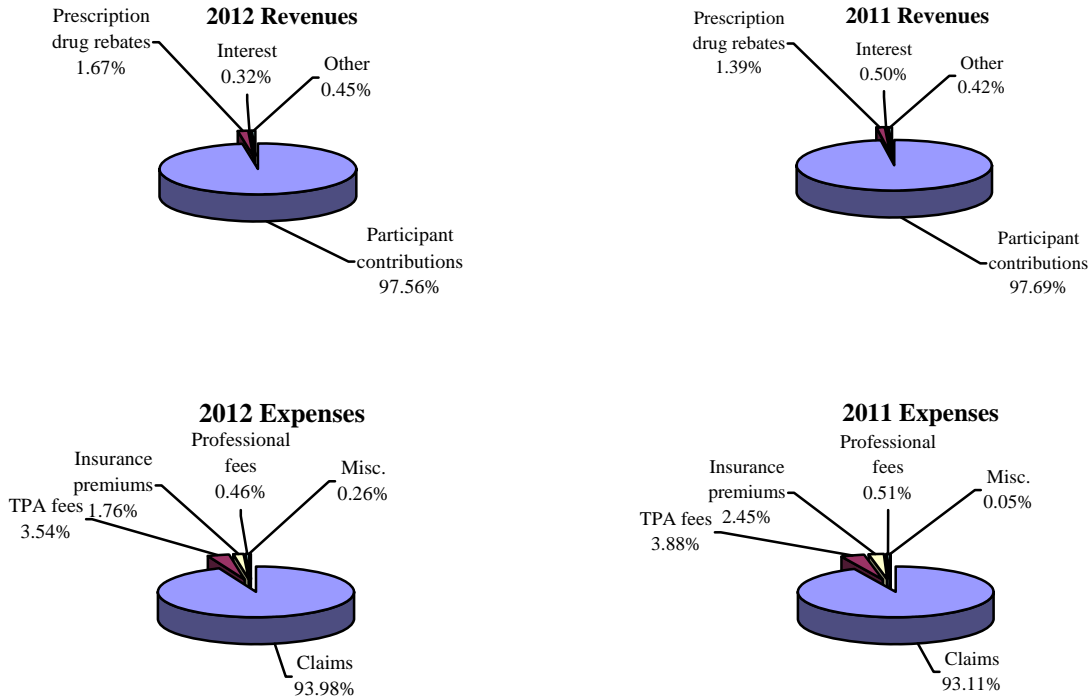
	2012	2011
Revenues:		
Participant contributions	\$ 22,160,772	\$ 22,853,733
Prescription drug rebates	379,115	324,378
Investment income	72,796	116,677
Other	103,055	98,967
Total revenue	<u>22,715,738</u>	<u>23,393,755</u>
Expenses:		
Claims	22,046,596	19,950,049
Third party administration fees	829,851	831,337
Insurance premiums	412,709	523,885
Professional fees	108,971	109,545
Miscellaneous	61,973	10,205
Total expenses	<u>23,460,100</u>	<u>21,425,021</u>
Change in net assets	(744,362)	1,968,734
Net assets at beginning of year	<u>16,842,233</u>	<u>14,873,499</u>
Net assets at end of year	<u>\$ 16,097,871</u>	<u>\$ 16,842,233</u>

During 2012, the Association saw an approximately \$2.1 million increase in claims expenses. The other significant change is the decrease in participant contribution revenue from 2011 to 2012. The decrease in participant contribution revenue was planned by the Association as it was decided that the reserve balance was too large. The Association expects to use a portion of the reserves during fiscal year 2013 as well.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

The charts below reflect the percentage of the revenues and expenses in 2012 versus 2011:



Debt Administration

The Association had no debt obligations outstanding at June 30, 2012.

Current Financial Related Activities

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

Contacting the Associations’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 Ms. Betty Schweifert, Treasurer, North Point ESC, 2900 Columbus Avenue, Sandusky, Ohio 44870 or by calling (419) 627-3913.

FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

Current assets:	
Cash	\$ 3,358,179
Investments	16,503,115
Receivables:	
Accounts	209,433
Accrued interest	43,097
Prepayments.	<u>3,094</u>
Total current assets	<u>20,116,918</u>
Current liabilities:	
Accounts payable	14,541
Unearned revenue.	949,506
Benefit obligations	<u>3,055,000</u>
Total current liabilities	<u>4,019,047</u>
Net assets:	
Unrestricted	<u>16,097,871</u>
Total net assets	<u>\$ 16,097,871</u>

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

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating revenues:	
Participant contributions	\$ 22,160,772
Prescription drug rebates	379,115
Other	<u>103,055</u>
Total operating revenues	<u>22,642,942</u>
Operating expenses:	
Claims	22,046,596
Third party administration fees.	829,851
Insurance premiums	412,709
Professional fees.	108,971
Miscellaneous	<u>61,973</u>
Total operating expenses	<u>23,460,100</u>
Operating loss	<u>(817,158)</u>
Nonoperating revenues:	
Investment income	<u>72,796</u>
Total nonoperating revenues	<u>72,796</u>
Change in net assets	(744,362)
Net assets, July 1	<u>16,842,233</u>
Net assets, June 30.	<u>\$ 16,097,871</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, 2012

Cash flows from operating activities:	
Cash received from participants	\$ 22,418,715
Cash received from prescription drug rebates	376,379
Cash received from other operations	102,465
Cash payments for claims	(22,042,596)
Cash payments for third party administration fees	(829,851)
Cash payments for insurance premiums	(412,699)
Cash payments for professional fees	(114,013)
Cash payments for miscellaneous	(51,584)
	<hr/>
Net cash used in operating activities	(553,184)
	<hr/>
Cash flows from investing activities:	
Investments purchased	(16,503,115)
Investments sold	17,730,697
Interest and dividends received	68,141
	<hr/>
Net cash provided by investing activities	1,295,723
	<hr/>
Net increase in cash	742,539
Cash, July 1	2,615,640
Cash, June 30	\$ 3,358,179
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating income	\$ (817,158)
Changes in assets and liabilities:	
(Increase) in accounts receivable	(182,153)
Decrease in prepayments	3,340
Increase in accounts payable	2,017
Increase in unearned revenue	436,770
Increase in benefit obligations	4,000
	<hr/>
Net cash used in operating activities	<u>\$ (553,184)</u>

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, 2012**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Huron-Erie School Employee Insurance Association (the "Association") is a shared public entity risk pool created on January 30, 1982 for the purpose of providing medical, dental and prescription drug insurance benefits for employees, and their dependents or designated beneficiaries, of the participating member districts in Erie and Huron Counties. The participating employers make contributions to the Association sufficient to cover substantially all costs of the Association. The Association is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Association's tax-exempt status.

Each of the thirteen participating member districts is represented on the Board of Trustees of the Association (the "Board") by their respective superintendent or a designate of their superintendent. The Board is authorized to pay reasonable compensation and necessary expenses incurred in the performance of services as consistent with the purpose of the Association, including for the payments of benefits, stop loss insurance premiums and other administrative expenses.

The Association may be terminated at any time by a two-thirds vote of the majority of the member districts of the Association pursuant to relevant laws and regulations. Any assets of the Association remaining after payment of all obligations shall be distributed to the member districts in a manner consistent with the purpose for which the Association was established, according to their proportionate share of contributions paid during the previous plan year.

The Association incurs premiums for specific stop loss insurance. The specific stop loss limit of \$350,000 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 treasurer of the fiscal agent is the treasurer of the Association. The fiscal agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board. The fiscal agent maintains the Association's funds as a custodial fund and separate from all other funds of the fiscal agent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The Association's significant accounting policies are described below.

A. Reporting Entity

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

Component units are legally separate organizations for which the Association is financially accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of the organization's governing board and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources; or (3) the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Association is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Association in that the Association approves the budget, the issuance of debt or the levying of taxes. 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/Masurement 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage. Operating expenses for the Association include the payment of claims, carrier stop loss premiums and administrative and other fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

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

The treasurer of the Association, who also serves as treasurer of the fiscal agent, purchases specific investments and maintains a separate checking account for the Association.

During 2012, investments of the Association were limited to nonnegotiable certificates of deposit, U.S. Treasury notes, federal agency securities, commercial paper, and investments in 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 is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

For purposes of the statement of net assets and the statement of cash flows, investments of the Association with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. In addition, the 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amounts is recorded at the time of the payment by the Association and the expense is recorded when used. The Association has prepaid items of \$3,094 at June 30, 2012.

G. Unearned Revenue

Unearned revenues represent premiums paid in advance by Association members at June 30, 2012. The premiums will be recognized as revenue in the month to which they pertain.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net assets at June 30, 2012.

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 2012.

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, 2012, the carrying amount of all Association deposits was \$13,656,668. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$3,630,065 of the Association's bank balance of \$13,408,523 was exposed to custodial risk as discussed below, while \$9,778,458 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - CASH AND INVESTMENTS - (Continued)

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

B. Investments

As of June 30, 2012, the Association had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 Months</u>
Federal Home Loan Bank Bond	\$ 1,004,950	\$ -	\$ 1,004,950
U.S. Treasury Note	1,002,812	-	1,002,812
Commercial Paper	999,212	999,212	-
STAR Ohio	<u>3,197,652</u>	<u>3,197,652</u>	-
	<u>\$ 6,204,626</u>	<u>\$ 4,196,864</u>	<u>\$ 2,007,762</u>

The weighted average maturity of investments is 0.25 years.

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

Credit Risk: The Association's investments in federal agency securities and a U.S Treasury note were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Association's investment in commercial paper was rated A1 and P1 by Standard & Poor's and Moody's Investor Services, respectively. 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - CASH AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Association places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Association at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Federal Home Loan Bank Bond	\$ 1,004,950	16.20
U.S. Treasury Note	1,002,812	16.16
Commercial Paper	999,212	16.10
STAR Ohio	<u>3,197,652</u>	<u>51.54</u>
	<u>\$ 6,204,626</u>	<u>100.00</u>

Investment income consisted of the following for the year ended June 30, 2012:

Net unrealized and realized loss on investments	\$ (5,868)
Interest and dividends	<u>78,664</u>
Total	<u>\$ 72,796</u>

NOTE 4 - BENEFIT OBLIGATIONS

GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", and GASB Statement No. 30, "Risk Financing Omnibus - an amendment of GASB Statement No. 10", establish accounting and financial reporting standards for insurance related activities of State and local governmental entities, and requires that actuarial techniques be utilized to estimate any claims' liabilities, including those for claims incurred but not reported. The Association has recorded benefit obligations as of June 30, 2012 totaling \$3,055,000, which includes reported claims not yet paid, claims incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. This amount is actuarially determined using historical trends in lag between the date a claim is incurred and paid.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$ 3,051,000	\$ 22,046,596	\$ (22,042,596)	\$ 3,055,000
2011	3,251,000	19,950,049	(20,150,049)	3,051,000

NOTE 5 - TAX STATUS

The trust established under the Association to hold plan assets is qualified pursuant to the appropriate section of the Internal Revenue Code as a tax exempt organization. The Association has obtained a favorable determination from the Internal Revenue Service and the Association believes that the plan continues to qualify and operate as designated.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - LITIGATION

The Association is not party to any litigation.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of accounts (administrative fees) and accrued interest of investments of the Association. These receivables are considered collectible in full and are expected to be collected in the subsequent year. The amount of accounts and accrued interest receivable at June 30, 2012 were \$209,433 and \$43,097, respectively.

NOTE 8 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2012, the Association has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Association.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Association.

NOTE 9 - RELATED PARTY TRANSACTION

The fiscal agent of the Association is a member district of the Association. The fiscal agent is responsible for administering the financial transactions of the Association and is compensated for these services. The total amount paid to the fiscal agent for the services provided for the year ended June 30, 2012 was \$30,276.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Huron-Erie School Employee Insurance Association
2900 Columbus Avenue
Sandusky, OH 44870

To the Board of Directors:

We have audited the financial statements of the Huron-Erie School Employee Insurance Association, Erie County, Ohio (the Association) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 13, 2012. Supplemental information and disclosure of revenue and claims development information was omitted. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our 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 Association's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Association'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 Association'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 Association'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*.

This report is intended solely for the information and use of the audit committee, the Board of Directors, management, and others within the entity. We intend it for no one other than these intended parties.

Charles Harris Associates

Charles E. Harris & Associates, Inc.

December 13, 2012

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Dave Yost • Auditor of State

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 5, 2013**