

Ohio School Employees
Insurance Consortium
Summit County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
September 30, 2016



Dave Yost • Auditor of State

Board of Directors
Ohio School Employees Insurance Consortium
6075 Manchester Rd
Akron, OH 44319

We have reviewed the *Independent Auditor's Report* of the Ohio School Employees Insurance Consortium, Summit County, prepared by Rea & Associates, Inc., for the audit period October 1, 2015 through September 30, 2016. 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 Ohio School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 14, 2017

This page intentionally left blank.

**Ohio School Employees Insurance Consortium
Summit County, Ohio**

*For the Fiscal Year Ended September 30, 2016
Table of Contents*

	<i>Page</i>
Independent Accountant’s Compilation Report.....	1
Statement of Receipts, Disbursements and Changes in Fund Cash Balances	3
Notes to the Financial Statement	4
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	7
Schedule of Findings	9

January 31, 2017

To the Board of Directors
Ohio School Employees Insurance Consortium
6075 Manchester Rd.
Akron, Oh 44319

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio School Employees Insurance Consortium, Summit County, Ohio (the Consortium), as of and for the year ended September 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Consortium's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Consortium's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 1 of the financial statements, the Consortium prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position and results of operations of the Ohio School Employees Insurance Consortium, Summit County, Ohio as of and for the year ended September 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 Consortium's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

Ohio School Employees Insurance Consortium
Summit County, Ohio
Statements of Receipts, Disbursements and Changes in Fund Cash Balances
For the Fiscal Year Ended September 30, 2016

	2016
Operating Cash Receipts	
Charges for Services	\$ 961,771
Prescription Drug Rebates	15,589
	977,360
Operating Cash Disbursements	
Payments to Third-Party Administrator:	
Stop Loss Premiums	729,562
Administration Fees	226,004
Professional Fees	58,766
	1,014,332
<i>Total Operating Cash Disbursements</i>	1,014,332
<i>Excess of Receipts Over (Under) Disbursements</i>	(36,972)
Non-Operating Cash Receipts	
Interest Receipts	318
	318
<i>Net Change in Fund Cash Balances</i>	(36,654)
<i>Fund Cash Balances, October 1</i>	845,434
<i>Fund Cash Balances, September 30</i>	\$ 808,780

See accompanying notes to the financial statements

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

The Ohio School Employees Insurance Consortium, (the Consortium) is a school district insurance consortium established pursuant to the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Ohio Revised Code Chapter 167. The Consortium is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No.10, as amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees and covered dependents in accordance with the Consortium’s agreement and bylaws.

The Board of Directors is the legislative and managerial body of the Consortium. Each of the participating member districts is represented on the Board of Directors by their respective superintendent or a designee of their superintendent. The treasurer of the fiscal agent also serves as a non-voting ex-officio member of the Board of Directors. All members of the Board of Directors serve without compensation. Officers are elected from the Board of Directors for a one year term.

The members of the Consortium include the following Boards of Education: Springfield Local School District and Manchester Local School District. Members may withdraw from the Consortium or from any particular benefits program with at least a 30 day notice.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through September 30, 2016.

The Manchester Local School District serves as fiscal agent for the Consortium. The fiscal agent is responsible for administering the financial transactions of the Consortium. The fiscal agent enters into contracts on behalf of the Consortium as authorized by the Board of Directors and carries out other responsibilities as approved by the Board of Directors and agreed to by the fiscal agent. The treasurer of the fiscal agent is the treasurer of the Consortium. The fiscal agent maintains the Consortium’s funds as a custodial fund and separate from all other funds of the fiscal agent.

Management believes these financial statements present all activities for which the Consortium is financially accountable.

B. Basis of Accounting

Although required by Ohio Administrative Code 117-02-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the Consortium has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2016

C. Fund Accounting

The Consortium 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 Consortium maintains a general fund to account for its expendable financial resources and related current expenses.

D. Budgetary Process

The Consortium is not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 and has decided not to adopt a formal budget annually as part of their amended agreement and bylaws.

E. Cash and Cash Equivalents

Cash received by the Consortium is reflected as "Fund Cash Balances" on the Statement of Receipts, Disbursements and Changes in Fund Cash Balance. The Consortium did not have any investments during the period ended September 30, 2016.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Consortium. For the Consortium, these revenues are primarily charges for services. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Consortium. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at September 30, 2016.

Note 2 – Equity in Pooled Cash

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that State and local governments communicate key information about such risks.

The Consortium maintains a checking account. Deposits are insured by the Federal Depository Insurance Corporation. As of September 30, 2016, \$558,780 of the School District's bank balance of \$808,780 was exposed to custodial risk while \$250,000 was covered by Federal Deposit Insurance Corporation. The Consortium is not required by law to have an investment policy.

The carrying amount of the Consortium's cash at September 30, was as follows:

	2016
Demand Deposits	<u>\$ 808,780</u>

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2016

Note 3 – Risk Management

The Consortium uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Consortium as direct insurer of the risks reinsured. The Consortium is contingently liable with respect to certain loss coverage, which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

The Consortium has contracted with a third-party administrator, Medical Mutual Services, to process and pay claims incurred by its members. The members contribute monthly premiums into the benefit pool fund of the Consortium. The treasurer approves payments to the third-party administrator for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Consortium members.

Members have two funding options:

Fully-funded consortium member – a member that is obtaining welfare benefit coverage for its employees through a fully funded arrangement and pays a single fully funded rate per participant that covers claims, risk charges, reserve charges, administrative fees and consortium fees. Upon withdrawal by any fully-funded member, the Consortium shall be solely responsible for all benefit claims run-out. Effective August 31, 2012, the Consortium has no fully-funded members.

Self-insured consortium member – a member that is obtaining welfare benefit coverage for its employees through a self-funding arrangement in which the member, rather than the Consortium, assumes liability for claims experience. Upon withdrawal by any self-insured member, the member shall be solely responsible for all benefit claims run-out.

Upon withdrawal from the Consortium, no member shall be entitled to the return or refund of any premiums or other amounts paid to the Consortium.

Note 4 – Professional Fees

The Consortium has contracted with Medical Mutual Services to provide administrative billing, payment application and remittance services. The Consortium has also contracted with Associated Underwriters Insurance to provide brokerage services.

Note 5 – Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the Consortium to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For the fiscal year 2016, the Consortium prepared financial statements that report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.38, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report. The Consortium does not intend to report in accordance with GAAP.

January 31, 2017

To the Board of Directors
Ohio School Employees Insurance Consortium
6075 Manchester Rd.
Akron, Oh 44319

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Ohio School Employees Insurance Consortium, Summit County, Ohio (the "Consortium"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements, and have issued our report thereon dated January 31, 2017, wherein we issued an adverse opinion on the Consortium's accompanying financial statements because they do not present fairly the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Consortium's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Consortium's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Consortium's Response to the Finding

The Consortium's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Consortium's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

Ohio School Employees Insurance Consortium
Summit County, Ohio
Schedule of Findings
September 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number: 2016-001 – **Material Noncompliance**

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38.

Condition: The Consortium did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2016, the Consortium prepared its financial statements in accordance with standards established by the Auditor of State; however, the Consortium is required to prepare annual reports in accordance with generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the Consortium prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The Consortium does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.



Dave Yost • Auditor of State

OHIO SCHOOL EMPLOYEES INSURANCE CONSORTIUM

SUMMIT 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
MARCH 14, 2017**