

***HURON-ERIE SCHOOL EMPLOYEES
INSURANCE ASSOCIATION***

ERIE COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2017





Dave Yost • Auditor of State

Board of Directors
Huron-Erie School Employees Insurance Association
1210 Bogart Road
Sandusky, OH 44870

We have reviewed the *Independent Auditors' Report* of the Huron-Erie School Employees Insurance Association, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 16, 2018

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**HURON-ERIE SCHOOL EMPLOYEES INSURANCE ASSOCIATION
AUDIT REPORT
For the Year Ended June 30, 2017**

Table of Contents

| <u>Title</u> | <u>Page Number</u> |
|---|------------------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 6 |
| Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Revenues, Expenses, and Changes in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to Financial Statements | 10 - 16 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 17 |

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

INDEPENDENT AUDITOR'S REPORT

Huron-Erie School Employees
Insurance Association
4918 Milan Road
Sandusky, OH 44870

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Huron-Erie School Employees Insurance Association, Erie County, Ohio, (the Association), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron-Erie School Employees Insurance Association, Erie County, Ohio as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

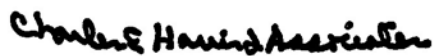
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The 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 requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements was not modified due to this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the Association'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Association's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.

November 30, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. 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 2017 are as follows:

- In total, net position was \$16,003,085 at June 30, 2017. This represents an increase of \$729,495 or 4.78% from fiscal year 2016.
- The Association had operating revenues of \$28,723,443 and operating expenses of \$28,080,377 for fiscal year 2017. The Association had \$86,429 in interest revenue. This figure includes interest earned plus any changes in the fair market value of investments held by the Association. Operating income and the change in net position for the fiscal year were \$643,066 and \$729,495, respectively.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Association's financial activities. The statement of net position and statement of revenues, expenses, and changes in net position provide information about the activities of the Association, including all short-term and long-term financial resources and obligations.

Reporting the Association's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal 2017?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Association's net position and changes in those assets. This change in net position is important because it tells the reader that, for the Association as a whole, the financial position of the Association has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Association's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report. The statement of cash flows provides information about how the Association finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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 10-16 of this report.

The table below provides a summary of the Association's net position for 2017 and 2016.

| | Net Position | |
|------------------------------------|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| <u>Current assets:</u> | | |
| Cash | \$ 5,930,957 | \$ 5,072,312 |
| Investments | 13,064,498 | 12,017,971 |
| Receivables: | | |
| Accounts | 464,070 | 757,084 |
| Accrued interest | 848 | 2,644 |
| Prepayments | <u>13,014</u> | <u>9,134</u> |
| Total current assets | <u>19,473,387</u> | <u>17,859,145</u> |
| <u>Current liabilities:</u> | | |
| Accounts payable | 11,302 | 8,705 |
| Unearned revenue | 684,842 | 342,864 |
| Benefit obligations | <u>2,774,158</u> | <u>2,233,986</u> |
| Total current liabilities | <u>3,470,302</u> | <u>2,585,555</u> |
| <u>Net position:</u> | | |
| Unrestricted | <u>\$ 16,003,085</u> | <u>\$ 15,273,590</u> |

Net position increased by \$729,495 or 4.78%. The increase in participant contributions was able to completely offset the increase in expenses in fiscal year 2017.

Unearned revenues, which represent participant contributions paid to the Association for fiscal year 2018, increased approximately \$342,000. The benefit obligations liability increased \$540,172 based upon the report of the Association's independent actuary.

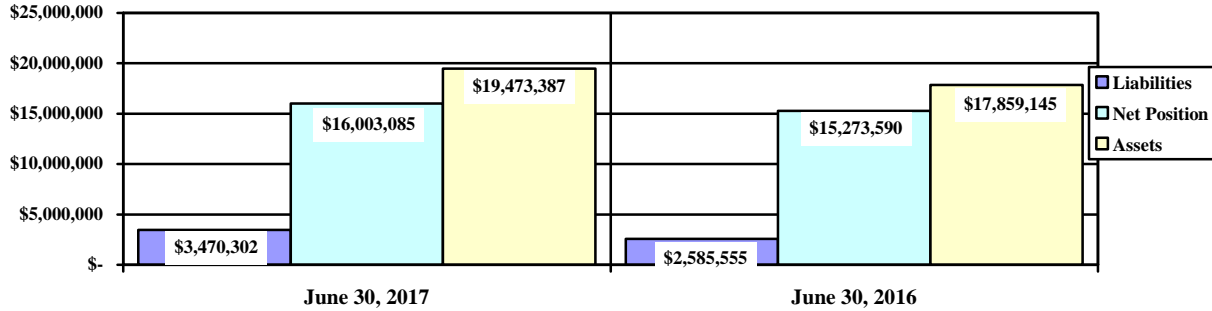
The Association's investment income increased by \$48,508 during fiscal year 2017 when compared to fiscal year 2016. This increase was due to higher interest rates on the Association's investments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The chart below shows a breakdown of the Association's assets, liabilities and net position for 2017 versus 2016:

Net Position



The table below shows the changes in net position for fiscal year 2017 and 2016.

Change in Net Position

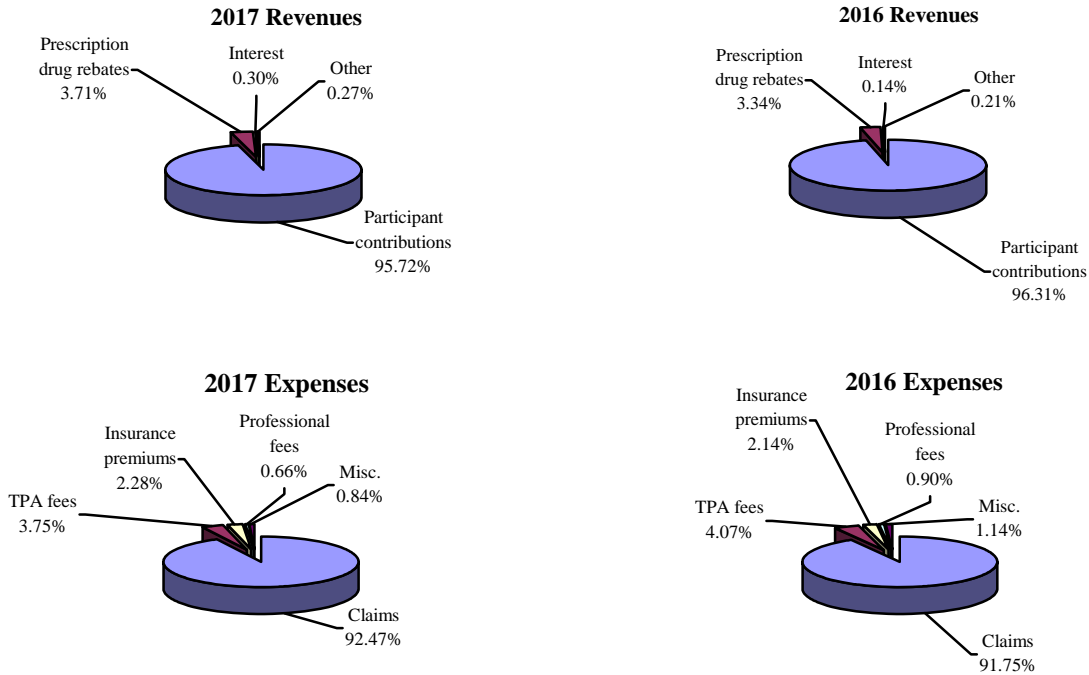
| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|----------------------|----------------------|
| <u>Revenues:</u> | | |
| Participant contributions | \$ 27,577,161 | \$ 26,541,662 |
| Prescription drug rebates | 1,069,993 | 921,580 |
| Investment income | 86,429 | 37,921 |
| Other | <u>76,289</u> | <u>57,560</u> |
| Total revenue | <u>28,809,872</u> | <u>27,558,723</u> |
| <u>Expenses:</u> | | |
| Claims | 25,964,490 | 24,269,436 |
| Third party administration fees | 1,052,992 | 1,077,733 |
| Insurance premiums | 641,216 | 565,156 |
| Professional fees | 185,303 | 237,540 |
| Miscellaneous | <u>236,376</u> | <u>301,746</u> |
| Total expenses | <u>28,080,377</u> | <u>26,451,611</u> |
| Change in net position | 729,495 | 1,107,112 |
| Net position at beginning of year | <u>15,273,590</u> | <u>14,166,478</u> |
| Net position at end of year | <u>\$ 16,003,085</u> | <u>\$ 15,273,590</u> |

During 2017, the Association saw an approximately \$1,695,000 increase in claims expenses. The other significant change is the increase of approximately \$1,035,000 in participant contribution revenue from 2017 to 2016. The increase in participant contributions is primarily due to the need for higher premiums as the result of increasing health care costs.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The charts below reflect the percentage of the revenues and expenses in 2017 versus 2016:



Current Financial Related Activities

The Association developed and approved a wellness plan that all districts were encouraged to negotiate to. Currently all thirteen districts (some of the districts may only have a portion of their employees because of negotiations with certified staff vs classified staff) that have negotiated this wellness plan with different effective dates. Under this plan, 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 have lower premiums for their health/prescription coverage. The Association expects to see cost savings as a result of these changes and expects to be able to market their services better to insurance carriers. The Association is working on future wellness activities that can save the association premium dollars.

Contacting the Association’s Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Association’s finances and to show the Association’s accountability for the money it receives. If you have questions about this report or need additional financial information contact Betty Schwiefert, HESE Treasurer, North Point ESC, 1210 East Bogart Road, Sandusky, Ohio 44870 or by calling (419) 627-3913.

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

STATEMENT OF NET POSITION
JUNE 30, 2017

| | |
|---|---------------------------------|
| Current assets: | |
| Cash | \$ 5,930,957 |
| Investments | 13,064,498 |
| Receivables: | |
| Accounts | 464,070 |
| Accrued interest | 848 |
| Prepayments. | <u>13,014</u> |
| Total current assets | <u>19,473,387</u> |
| Current liabilities: | |
| Accounts payable | 11,302 |
| Unearned revenue. | 684,842 |
| Benefit obligations | <u>2,774,158</u> |
| Total current liabilities | <u>3,470,302</u> |
| Net position: | |
| Unrestricted | <u>16,003,085</u> |
| Total net position | <u><u>\$ 16,003,085</u></u> |

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

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | |
|--|-----------------------------|
| Operating revenues: | |
| Participant contributions | \$ 27,577,161 |
| Prescription drug rebates | 1,069,993 |
| Other | <u>76,289</u> |
| Total operating revenues | <u>28,723,443</u> |
| Operating expenses: | |
| Claims | 25,964,490 |
| Third party administration fees. | 1,052,992 |
| Insurance premiums | 641,216 |
| Professional fees. | 185,303 |
| Miscellaneous | <u>236,376</u> |
| Total operating expenses | <u>28,080,377</u> |
| Operating income | <u>643,066</u> |
| Nonoperating revenues: | |
| Investment income | <u>86,429</u> |
| Total nonoperating revenues | <u>86,429</u> |
| Change in net position. | 729,495 |
| Net position, July 1 | <u>15,273,590</u> |
| Net position, June 30. | <u><u>\$ 16,003,085</u></u> |

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

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from participants | \$ 28,122,835 |
| Cash received from prescription drug rebates | 1,094,993 |
| Cash received from other operations | 76,289 |
| Cash payments for claims | (25,360,000) |
| Cash payments for third party administration fees | (1,052,992) |
| Cash payments for insurance premiums | (641,251) |
| Cash payments for professional fees | (183,108) |
| Cash payments for miscellaneous | (239,819) |
| | <hr/> |
| Net cash provided by operating activities | 1,816,947 |
| | <hr/> |
| Cash flows from investing activities: | |
| Investments purchased | (13,064,498) |
| Investments sold | 12,017,971 |
| Interest and dividends received | 88,225 |
| | <hr/> |
| Net cash used in investing activities | (958,302) |
| | <hr/> |
| Net increase in cash | 858,645 |
| Cash, July 1 | 5,072,312 |
| Cash, June 30 | \$ 5,930,957 |
| | <hr/> <hr/> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 643,066 |
| Changes in assets and liabilities: | |
| Decrease in accounts receivable | 293,014 |
| (Increase) in prepayments | (3,880) |
| Increase in accounts payable | 2,597 |
| Increase in unearned revenue | 341,978 |
| Increase in benefit obligations | 540,172 |
| | <hr/> |
| Net cash provided by operating activities | \$ 1,816,947 |
| | <hr/> <hr/> |

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$400,000 represents the maximum amount of claims to be paid annually by the Association per participant.

The Association has contracted with a third-party administrator to act as its agent for the payment of plan benefits, selection of reinsurance coverage, and provision of certain administrative services, and is compensated for these services.

The North Point Educational Service Center (the "ESC") serves as fiscal agent for the Association. The fiscal agent is responsible for administering the financial transactions of the Association. The fiscal agent carries out other responsibilities as approved by the Board and agreed to by the fiscal agent. The fiscal agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board. The fiscal agent maintains the Association's funds as a custodial fund and separate from all other funds of the fiscal agent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Component units are legally separate organizations for which the Association is financially accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of the organization's Governing Board and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources; or (3) the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Association is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Association in that the Association approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Association has no component units. The basic financial statements of the reporting entity include only those of the Association (the primary government).

B. Fund Accounting

The Association maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Association uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage. 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 purchases specific investments and maintains a separate checking account for the Association.

During 2017, investments of the Association were limited to nonnegotiable certificates of deposit 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 (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Association measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

For purposes of the statement of net position and the statement of cash flows, investments of the Association with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. In addition, the Association's policy is to treat all of its short-term, highly liquid investments (such as STAR Ohio) as investments and not as cash equivalents.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

An analysis of the Association's cash and investments at fiscal year end is provided in Note 3.

E. Budgetary Process

The member school districts of the Association are required by Ohio law to adopt an annual budget. The Association itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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 \$13,014 at June 30, 2017.

G. Unearned Revenue

Unearned revenues represent premiums paid in advance by Association members at June 30, 2017. The premiums will be recognized as revenue in the month to which they pertain.

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net position at June 30, 2017.

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 2017.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all Association deposits was \$10,211,391. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$4,456,595 of the Association’s bank balance of \$10,222,322 was exposed to custodial risk as discussed below, while \$5,765,727 was covered by the Federal Deposit Insurance Corporation (FDIC).

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, 2017, the Association had the following investments and maturities:

| <u>Investment type</u> | <u>NAV</u> | <u>Investment maturities</u> <u>6 months or less</u> |
|------------------------|--------------|---|
| STAR Ohio | \$ 8,784,064 | \$ 8,784,064 |

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized rating service. The Association’s investment policy does not specifically address credit risk beyond requiring the Association to only invest in securities authorized by State statute.

Concentration of Credit Risk: The Association places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Association at June 30, 2017:

| <u>Investment type</u> | <u>NAV</u> | <u>% of Total</u> |
|------------------------|--------------|-------------------|
| STAR Ohio | \$ 8,784,064 | 100.00 |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS - (Continued)

Investment income consisted of the following for the year ended June 30, 2017:

| | |
|------------------------|------------------|
| Interest and dividends | \$ <u>86,429</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, 2017 totaling \$2,774,158, 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>Drug Claim Credit Receivable</u> | <u>Ending Balance</u> |
|--------------------|------------------------------|----------------------------|----------------------------|---|---------------------------|
| 2017 | \$ 2,233,986 | \$ 25,964,490 | \$ (25,360,000) | \$ (64,318) | \$ 2,774,158 |
| 2016 | 3,751,505 | 24,269,436 | (25,851,273) | 64,318 | 2,233,986 |

NOTE 5 - TAX STATUS

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

NOTE 6 - LITIGATION

The Association is not party to any litigation.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2017 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, 2017 were \$464,070 and \$848, respectively.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - RELATED PARTY TRANSACTION

The fiscal agent of the Association is a member district of the Association. The fiscal agent is responsible for administering the financial transactions of the Association and is compensated for these services. The total amount paid to the fiscal agent for the services provided for the year ended June 30, 2017 was \$28,802.

NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the Association has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of this GASB Statement did not have an effect on the financial statements of Association because the Association does not receive tax revenue.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Association.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Association.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Association.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Huron-Erie School Employees
Insurance Association
Erie County
4918 Milan Road
Sandusky, OH 44870

To the Board of Directors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Huron-Erie School Employees Insurance Association, Erie County, Ohio (the Association), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.

November 30, 2017



Dave Yost • Auditor of State

HURON – ERIE SCHOOL EMPLOYEE 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
JANUARY 30, 2018**