

**HURON-ERIE
SCHOOL EMPLOYEE
INSURANCE ASSOCIATION**

April 30, 2005

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

BROCKMAN, COATS, GEDELIAN & CO.

certified public accountants and consultants





**Auditor of State
Betty Montgomery**

Board of Trustees
Huron-Erie School Employee Insurance Association
316 W. Mason Road
Milan, Ohio 44846

We have reviewed the Independent Auditor's Report of the Huron-Erie School Employee Insurance Association, Erie County, prepared by Brockman, Coats, Gedelian & Co. for the audit period May 1, 2004 through April 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 17, 2005

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HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

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BROCKMAN, COATS, GEDELIAN & CO.

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INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of the Board of Trustees of
Huron-Erie School Employee Insurance Association:

We have audited the accompanying financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of April 30, 2005, 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 Huron-Erie School Employee Insurance Association as of April 30, 2005, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Association adopted Governmental Accounting Standards Board Statement No. 34 as of and for the year ended April 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2005 on our consideration of Huron-Erie School Employee Insurance 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. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Brockman, Coats, Geddes & Co.

July 22, 2005

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) for the year ended April 30, 2005

The discussion and analysis of 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 April 30, 2005. 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 notes to the basic financial statements to enhance their understanding of the Association's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- In total, net assets decreased \$1,434,695 which represents a 26.3% decrease from fiscal year 2004.
- Participants' contributions accounted for \$18,745,651 in revenue or 99.3% of all revenues. Interest income of \$123,476 accounted for the remaining revenue.
- The Association incurred expenses totaling \$20,303,822, of which \$18,458,441 represented benefits paid for participants. Participants' contributions received during fiscal 2005 were not adequate to support the benefits provided and the related administrative costs incurred.
- The major cause of the decrease resulted from a significant spike in large (\$200,000 plus) claims in October 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Association's basic financial statements, which include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements. These statements report information about the Association as a whole and about its activities. The Association is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the Association's financial position and reports the resources owned (assets), obligations owed (liabilities), and net assets (the difference between assets and liabilities). The Statement of Revenues, Expenses, and Changes in Net Assets presents a summary of how the Association's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statement of Cash Flows provides information about the Association's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The notes to the financial statements provide information that is essential for a full understanding of the financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued for the year ended April 30, 2005

Financial Analysis of the Association's Financial Position and Results of Operations

The Financial Statement Trend Analysis that follows provides a summary of the Association's financial position and operations for the years 2005, 2004, 2003, 2002 and 2001.

The Association implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in 2005. This is the first year for reporting in this manner, but the Association has been reporting using the accrual basis of accounting for many years so a comparison with prior years is shown.

Debt Administration

At April 30, 2005, the Association had no bonded debt outstanding.

Current Financial Related Activities

Overall, the Association is strong financially. As the preceding information shows, the Association relies heavily upon participant contributions. The Executive Board recommended and the Governing Board approved a twenty-two (22) percent increase in participant contributions for fiscal year 2006. This additional revenue, along with the Association's cash balance, will provide the Association with the necessary funds to meet obligations in fiscal year 2006.

As with all insurance consortiums, the Association is faced with continuing increases in health costs. The Governing Board meets on a quarterly basis and employs consultants who report on the trend in all health related costs. The Association is ever vigilant to keep the Association's long term fiscal health at a level to sustain the continuation of this insurance consortium.

In conclusion, the Association has committed itself to financial excellence for many years, and will continue to be innovative and a leader in providing affordable health insurance to its participants. These financial statements represent the continued effort to keep our residents informed of the excellent use of their tax dollars for the health insurance needed by employees.

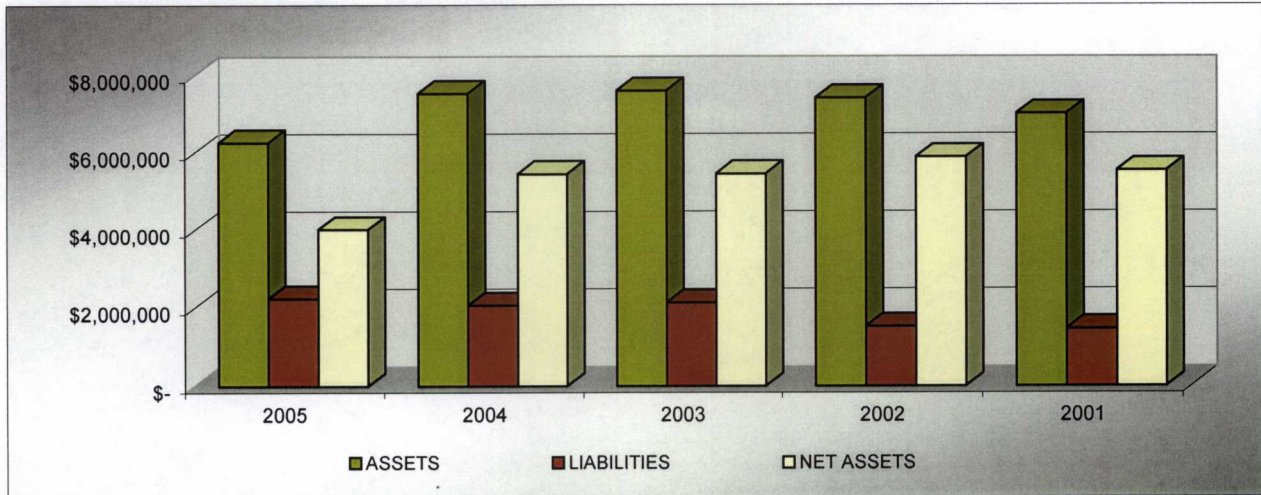
Contacting the Association's Financial Management

This financial report is designed to provide our citizen taxpayers and participants 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 Mr. Joseph DeRose, Chairman of the Executive Committee of the Association, EHOVE Career Center, 316 W. Mason Road, Milan, Ohio 44846.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

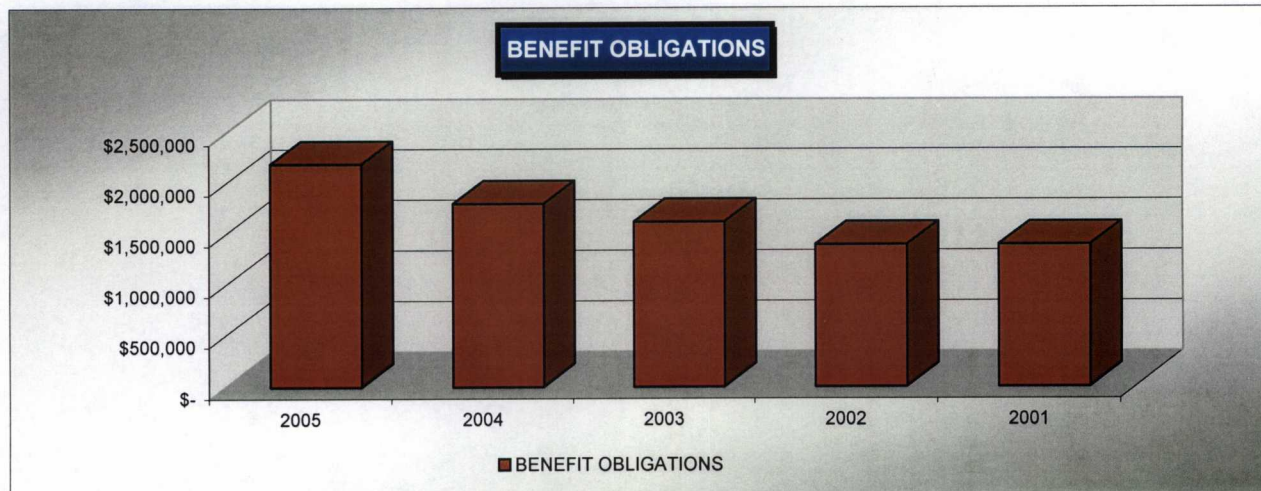
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
FINANCIAL STATEMENT TREND ANALYSIS
for the year ended April 30, 2005

NET ASSETS



	2005	2004	2003	2002	2001
ASSETS	6,277,596	7,539,094	7,605,281	7,418,109	7,010,962
LIABILITIES	2,247,275	2,074,078	2,140,446	1,527,011	1,466,768
NET ASSETS	4,030,321	5,465,016	5,464,835	5,891,098	5,544,194

Assets have decreased ~\$1.3 million since 2004 and ~\$733,000 since 2001. Liabilities have increased ~\$173,000 since 2004 and ~\$780,000 since 2001. As a result, net assets have decreased ~\$1.4 million since 2004 and ~\$1.5 million since 2001.

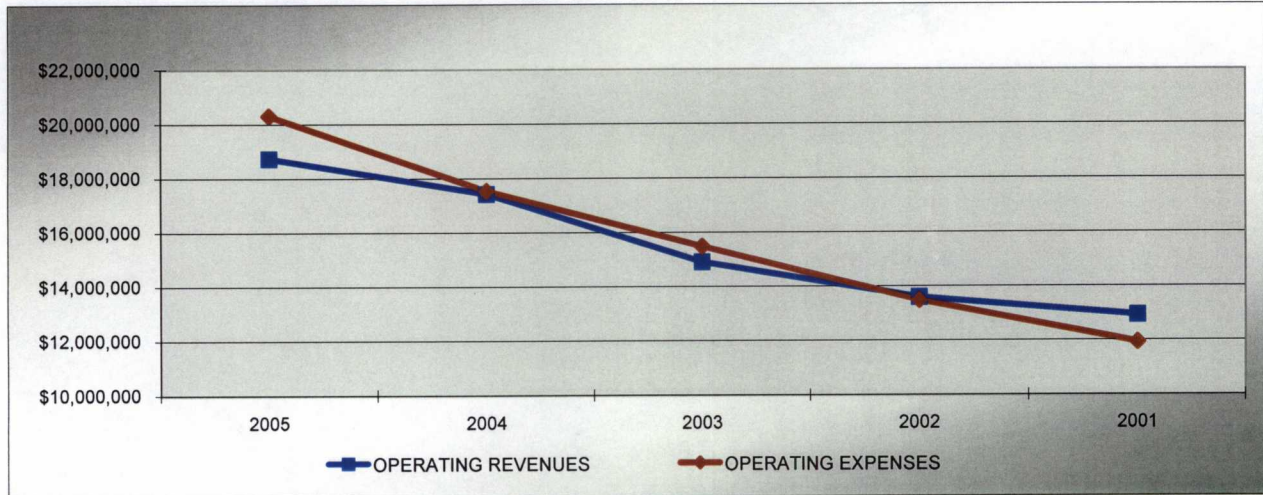


	2005	2004	2003	2002	2001
BENEFIT OBLIGATIONS (INCL. IN LIABILITIES ABOVE)	\$ 2,197,895	\$ 1,805,864	\$ 1,626,441	\$ 1,400,000	\$ 1,400,000

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
 FINANCIAL STATEMENT TREND ANALYSIS
 for the year ended April 30, 2005

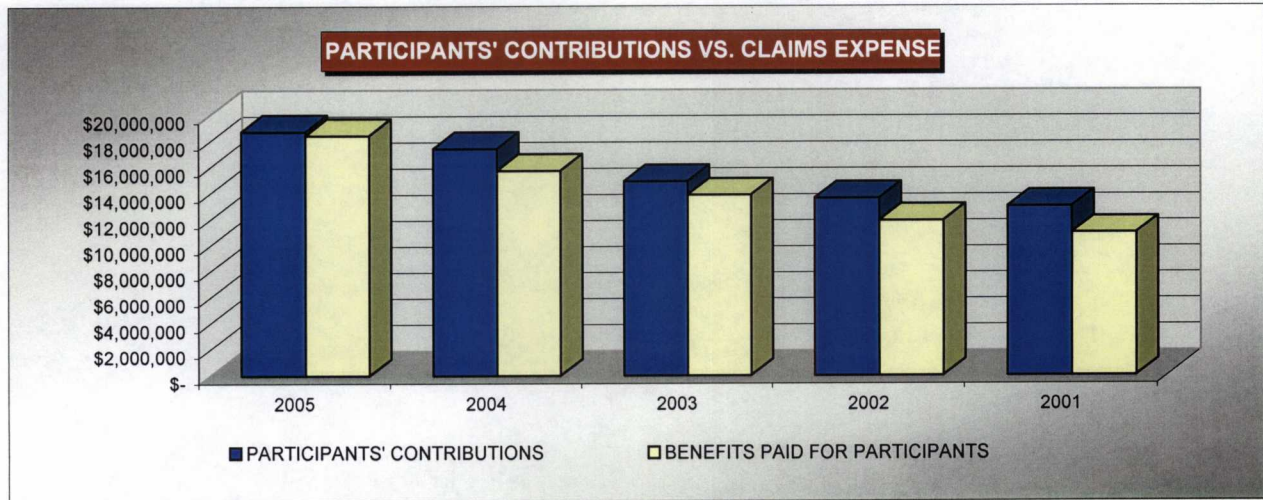
REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS



	2005	2004	2003	2002	2001
OPERATING REVENUES	\$ 18,745,651	\$ 17,434,473	\$ 14,918,808	\$ 13,621,565	\$ 12,970,578
OPERATING EXPENSES	<u>20,303,822</u>	<u>17,539,778</u>	<u>15,494,545</u>	<u>13,506,974</u>	<u>11,947,485</u>
OPERATING INCOME (LOSS)	(1,558,171)	(105,305)	(575,737)	114,591	1,023,093
NON-OPERATING REVENUES	<u>123,476</u>	<u>105,486</u>	<u>149,474</u>	<u>232,313</u>	<u>372,539</u>
CHANGE IN NET ASSETS	<u>\$ (1,434,695)</u>	<u>\$ 181</u>	<u>\$ (426,263)</u>	<u>\$ 346,904</u>	<u>\$ 1,395,632</u>
OPERATING REVENUES - INCREASE (DECREASE)	\$ 1,311,178 8%	\$ 2,515,665 17%	\$ 1,297,243 10%	\$ 650,987 5%	
OPERATING EXPENSES - INCREASE (DECREASE)	\$ 2,764,044 16%	\$ 2,045,233 13%	\$ 1,987,571 15%	\$ 1,559,489 13%	

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
 FINANCIAL STATEMENT TREND ANALYSIS
 for the year ended April 30, 2005

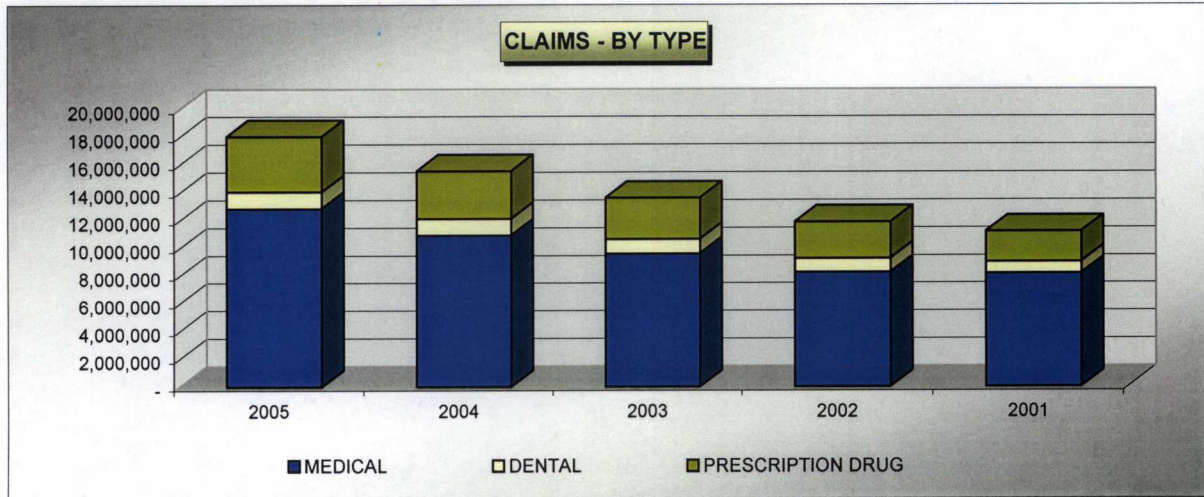


	2005	2004	2003	2002	2001
OPERATING REVENUES:					
PARTICIPANTS' CONTRIBUTIONS	\$ 18,745,651	\$ 17,434,473	\$ 14,918,808	\$ 13,621,565	\$ 12,970,578
OPERATING EXPENSES					
BENEFITS PAID FOR PARTICIPANTS	\$ 18,458,441	\$ 15,751,183	\$ 13,879,617	\$ 11,906,772	\$ 10,954,658
ADMINISTRATIVE EXPENSES	<u>1,845,381</u>	<u>1,788,595</u>	<u>1,614,928</u>	<u>1,600,202</u>	<u>992,827</u>
TOTAL OPERATING EXPENSES	<u>\$ 20,303,822</u>	<u>\$ 17,539,778</u>	<u>\$ 15,494,545</u>	<u>\$ 13,506,974</u>	<u>\$ 11,947,485</u>

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), Continued
 FINANCIAL STATEMENT TREND ANALYSIS
 for the year ended April 30, 2005

BENEFITS PAID FOR PARTICIPANTS



	2005	2004	2003	2002	2001
MEDICAL	\$ 12,889,195	\$ 10,940,383	\$ 9,614,507	\$ 8,265,051	\$ 8,176,160
DENTAL	1,195,255	1,207,807	1,053,048	1,008,662	830,205
PRESCRIPTION DRUG	3,981,960	3,423,570	2,985,621	2,633,059	2,198,293
	18,066,410	15,571,760	13,653,176	11,906,772	11,204,658
INCREASE (DECREASE) IN BENEFIT OBLIGATION	392,031	179,423	226,441	-	(250,000)
	<u>\$ 18,458,441</u>	<u>\$ 15,751,183</u>	<u>\$ 13,879,617</u>	<u>\$ 11,906,772</u>	<u>\$ 10,954,658</u>
MEDICAL	71.3%	70.3%	70.4%	69.4%	73.0%
DENTAL	6.6%	7.8%	7.7%	8.5%	7.4%
PRESCRIPTION DRUG	<u>22.0%</u>	<u>22.0%</u>	<u>21.9%</u>	<u>22.1%</u>	<u>19.6%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

➤ 2005 claims:

- i. Medical – claims increased of ~\$1.9 million (~18%) in 2005 vs. 2004; increased ~\$4.6 million (~57%) vs. 2001.
- ii. Dental – remained comparable in 2005 vs. 2004; increase ~\$365,000 (~44%) vs. 2001.
- iii. Prescription drug – claims increased ~\$558,000 (~16%) in 2005 vs. 2004; increased ~\$1.9 million (~85%) vs. 2001.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF NET ASSETS

April 30, 2005

ASSETS

Current assets:

Cash	\$ 16,004
Investments	6,213,085
Other assets	<u>48,507</u>
	<u>\$ 6,277,596</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Benefit obligations	\$ 2,197,895
Accounts payable	<u>49,380</u>
Total current liabilities	2,247,275
Net assets, unrestricted	<u>4,030,321</u>
	<u>\$ 6,277,596</u>

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS for the year ended April 30, 2005

Operating revenues:	
Participants' contributions	<u>\$ 18,745,651</u>
Operating expenses:	
Benefits paid for participants:	
Medical	12,889,195
Dental	1,195,255
Prescription drug	3,981,960
Net increase in benefit obligation	<u>392,031</u>
	18,458,441
Administrative expenses:	
Insurance premiums	354,775
Third party administration fees	356,804
PPO savings fees	937,683
PPO access fees	81,704
Provider review and precertification fees	52,530
Professional fees	49,487
Miscellaneous	<u>12,398</u>
Total operating expenses	<u>20,303,822</u>
Operating loss	(1,558,171)
Non-operating revenues:	
Investment income	<u>123,476</u>
Change in net assets	(1,434,695)
Net assets, beginning of year	<u>5,465,016</u>
Net assets, end of year	<u><u>\$ 4,030,321</u></u>

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF CASH FLOWS for the year ended April 30, 2005

Cash flows from operating activities:	
Cash received from participants' contributions	\$ 18,624,963
Cash paid for participants' benefits	(18,084,559)
Cash paid for administrative expenses	<u>(1,940,627)</u>
Net cash used by operating activities	<u>(1,400,223)</u>
Cash flows from investing activities:	
Purchases of investments	(10,350,000)
Proceeds from sale of investments	11,346,217
Investment income received	<u>107,864</u>
Net cash provided by investing activities	<u>1,104,081</u>
Net decrease in cash	(296,142)
Cash, beginning of year	<u>312,146</u>
Cash, end of year	<u>\$ 16,004</u>

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

STATEMENT OF CASH FLOWS, Continued
for the year ended April 30, 2005

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	<u>\$ (1,558,171)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in operating assets and liabilities:	
Other assets	(15,249)
Benefit obligations	392,031
Accounts payable	(95,246)
Unearned participants' contributions	<u>(123,588)</u>
Total adjustments	<u>157,948</u>
Net cash used by operating activities	<u>\$ (1,400,223)</u>

The accompanying notes are an integral part of these financial statements.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS for the year ended April 30, 2005

1. Reporting 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.

Each of the thirteen participating member districts is represented on the board of trustees of the Association by their respective superintendent or a designate of their superintendent. The trustees are 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 payment 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 and aggregate stop loss insurance. The specific stop loss limit of \$250,000 represents the maximum amount of claims to be paid annually by the Association per participant. The aggregate attachment point is based on a contract rate times the number of covered employees and their dependents.

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

A reporting entity is comprised 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. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Association. For the Huron-Erie School Employee Insurance Association, this consists of a single enterprise fund.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS, Continued for the year ended April 30, 2005

1. Description of the Entity, Continued:

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; the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The Association has no component units.

2. Summary of Accounting Policies:

Basis of Presentation – The financial statements of the Association have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The Association also applies Financial Accounting Standards Board (FASB) Statements and Interpretations unless those pronouncements conflict with or contradict GASB pronouncements.

The Association uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Change in Accounting Principle – During 2005, the Association adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and applied those standards on a retroactive basis. GASB No. 34 establishes standards for external reporting for state and local governments. As allowed by GASB No. 34, the Association has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting. The primary impact for the Association of this adoption is the requirement to include management's discussion and analysis.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS, Continued for the year ended April 30, 2005

2. Summary of Accounting Policies, Continued:

Measurement Focus – The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Association 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 statement of cash flows provides information about how the Association meets the cash flow needs of its enterprise activity.

Basis of Accounting – The Association’s financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses recognized when incurred. Specifically, contributions from participants are recognized as income when due from Association members, and benefits paid for participants are recognized when incurred.

Cash Equivalents and Investments – The Association’s policy is to treat all of its short-term, highly liquid investments as investments, and not as cash equivalents.

Investments were limited to federal agency obligations, commercial paper, nonnegotiable certificates of deposit, and investments in the State Treasury Asset Reserve of Ohio (“STAR Ohio”). Investments are reported at fair value or at amortized cost, which approximates fair value. Investment income includes interest and dividends and realized and unrealized gains and losses.

The Association has invested in STAROhio, an investment pool managed by the Office of the Ohio Treasurer of State, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on the respective statement of net assets date.

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 adopted by the Association or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net assets in 2005.

Operating Revenues and Expenses – Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Association, these revenues are participants’ contributions. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS, Continued for the year ended April 30, 2005

2. Summary of Accounting Policies, Continued:

Estimates – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. While actual results could differ from those estimates, management does not expect those differences to be significant to the financial statements.

Extraordinary and Special Items – Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Association Board of Trustees and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

3. Deposits and Investments:

Deposits – Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The Association's practice is to place deposits with commercial banks within its service area. At April 30, 2005, the carrying amount of the Association's deposits was \$16,004, which was covered by Federal depository insurance.

Protection of the Association's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer, by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments – The Association categorizes investments to give an indication of the level of credit risk associated with the Association's custodial arrangements at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Association or its agent in the Association's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent, but not in the Association's name (the Association had no Category 3 investments at April 30, 2005).

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS, Continued
for the year ended April 30, 2005

3. Deposits and Investments, Continued:

Categorization of the Association's investments at April 30, 2005 was as follows:

	Category		Fair Value
	1	2	
Federal agency obligations	\$ -	\$ 3,493,775	\$ 3,493,775
Commercial paper	-	1,499,100	1,499,100
Certificate of deposit	500,000	-	500,000
	\$ 500,000	\$ 4,992,875	5,492,875
STAROhio			720,210
			\$ 6,213,085

Investments in STAROhio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

4. Other Assets:

Other assets consist of the following at April 30:

Prepaid premiums for plan purchaser protection liability insurance	\$ 4,285
Stop-loss receivable	27,115
Contributions receivable	-
Interest income receivable	17,107
	\$ 48,507

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS, Continued for the year ended April 30, 2005

5. 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 April 30, 2005 totaling \$2,197,895, 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 the lag between the date a claim is incurred and paid.

Changes in the Association's benefit obligations amount in fiscal 2005 was as follows:

Balance at beginning of the fiscal year	\$ 1,805,864
Current year claims	18,458,441
Claims paid	(18,084,559)
Stop-loss receivable	<u>18,149</u>
Balance at end of the fiscal year	<u>\$ 2,197,895</u>

7. 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 letter from the Internal Revenue Service and the Association believes that the plan continues to qualify and operate as designed.

8. Contingency:

During the normal course of business, the Association is subject to various legal proceedings and claims. On July 8, 2005, a Summary Judgment was granted in favor of the Association and the claims of a member of the Association were dismissed with prejudice. The Association was awarded \$38,000, including accrued interest, for claims paid by the Association that had been reimbursed to the member. No provision has been made in the accompanying financial statements for the settlement since it took place after the financial statement date.



BROCKMAN, COATS, GEDELIAN & CO.

certified public accountants and consultants

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**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**

To the Executive Committee of the Board of Trustees of
Huron Erie School Employee Insurance Association:

We have audited the financial statements of Huron Erie School Employee Insurance Association as of and for the year ended April 30, 2005, and have issued our report thereon dated July 22, 2005. 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 Huron Erie School Employee Insurance Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron Erie School Employee Insurance Association's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Brockman, Coats, Geddes & Co.

July 22, 2005



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 10, 2005**