

Ohio School Employees
Insurance Consortium
Summit County, Ohio

Audited Financial Statements

For the Fiscal Years Ended
September 30, 2011 and 2012



Dave Yost • Auditor of State

Board of Directors
Ohio School Employees Insurance Consortium
6075 Manchester Road
Akron, Ohio 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, 2010 through September 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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

March 25, 2014

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

*For the Fiscal Years Ended September 30, 2011 and 2012
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February 3, 2014

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Ohio School Employees Insurance Consortium, Summit County, Ohio (the Consortium) as of and for the years ended September 30, 2011 and 2012. These financial statements are the responsibility of the Consortium'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the years ended September 30, 2011 and 2012 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of September 30, 2011 and 2012, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances as of September 30, 2011 and 2012 of the Consortium and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The claims development information on page 9 as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2014, on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.

Hea & Associates, Inc.

Medina, Ohio

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

*Statements of Receipts, Disbursements and Changes in Fund Cash Balances
For the Years Ended September 30, 2011 and 2012*

	2012	2011
Operating Cash Receipts		
Charges for Services	\$ 2,685,032	\$ 2,784,921
Prescription Drug Rebates	65,783	73,745
<i>Total Cash Receipts</i>	2,750,815	2,858,666
Operating Cash Disbursements		
Payments to Third-Party Administrator:		
Claims Expense	1,613,908	1,533,889
Stop Loss Premiums	582,165	620,127
Administration Fees	283,980	293,923
Professional Fees	111,808	114,314
<i>Total Operating Cash Disbursements</i>	2,591,861	2,562,253
<i>Net Change in Fund Cash Balances</i>	158,954	296,413
<i>Fund Cash Balances, October 1</i>	1,111,045	814,632
<i>Fund Cash Balances, September 30</i>	\$1,269,999	\$1,111,045

See accompanying notes to the financial statements.

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Basic Financial Statements
For the Years Ended September 30, 2011 and 2012

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. Members can choose from medical, prescription drug, dental, vision and life insurance coverage.

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: Cardinal Local School District, 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. Effective August 31, 2012, the Cardinal Local School District withdrew from the Consortium.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through September 30, 2011 and 2012.

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 Trustees 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

The Consortium financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Consortium's financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Basic Financial Statements
For the Years Ended September 30, 2011 and 2012

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.

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. GASB Statement No. 40 was adopted by the Consortium during 2011.

The Consortium maintains a checking account. Deposits are insured by the Federal Depository Insurance Corporation. The Consortium is not required by law to have an investment policy.

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

	<u>2012</u>	<u>2011</u>
Demand Deposits	<u>\$ 1,269,999</u>	<u>\$ 1,111,045</u>

Ohio School Employees Insurance Consortium

Summit County, Ohio

Notes to the Basic Financial Statements

For the Years Ended September 30, 2011 and 2012

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.

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

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Basic Financial Statements
For the Years Ended September 30, 2011 and 2012

Note 5 – Claims Liability

The Consortium receives an annual actuarial report that estimates an amount for the runoff liability for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the years ended September 30, 2012 and 2011. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Pooled Cash	\$ 1,269,999	\$ 1,111,045
IBNR Actuarial Liability	<u>38,537</u>	<u>85,293</u>
Excess Funds	<u>\$ 1,231,462</u>	<u>\$ 1,025,752</u>

Note 6 – Membership Withdrawal

Effective August 31, 2012, Cardinal Local School District, a fully-funded member, withdrew from the Consortium. Membership contributions from Cardinal Local School District represented 76 percent and 74 percent of total charges for services in fiscal years 2011 and 2012, respectively. The Consortium will continue to operate with the remaining members.

**OHIO SCHOOL EMPLOYEES INSURANCE CONSORTIUM
SUMMIT COUNTY, OHIO**

**SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION**

	Plan Year	
	10/1/2010 - 9/30/2011	10/1/2011 - 9/30/2012
Premiums and investment revenue:		
Earned	\$ 2,784,921	\$ 2,685,032
Ceded	(620,127)	(582,165)
Net earned	2,164,794	2,102,867
Unallocated Expenses	408,237	395,788
Estimated losses and expenses, end of policy year:		
Incurred	1,519,675	1,585,622
Net paid cumulative as of:		
End of policy year	1,446,444	1,552,782
One year later	1,519,820	
Re-estimated net incurred losses and expenses:		
End of policy year	1,519,675	1,585,622
One year later	1,519,820	

February 3, 2014

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 the financial statements of the Ohio School Employees Insurance Consortium, Summit County, Ohio (the Consortium) as of and for the years ended September 30, 2011 and 2012, and have issued our report thereon dated February 3, 2014, wherein we noted the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Consortium's management in a separate letter dated February 3, 2014.

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

Hea & Associates, Inc.

Medina, Ohio



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
APRIL 8, 2014**