

HURON-ERIE SCHOOL EMPLOYEE
INSURANCE ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors'* Report of the Huron-Erie School Employee Insurance Association, Erie County, prepared by Weber O'Brien Ltd., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 10, 2012

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HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of and for the year ended June 30, 2011, which collectively comprise the Association's basic financial statements 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 June 30, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the required supplementary information on revenue and claims development that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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.



February 13, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2011 are as follows:

- In total, net assets were \$16,842,233 at June 30, 2011. This represents an increase of \$1,968,734 or 13.24% over fiscal year 2010.
- The Association had operating revenues of \$23,277,078 and operating expenses of \$21,425,021 for fiscal year 2011. The Association had \$116,677 in investment income. 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 assets for the fiscal year were \$1,852,057 and \$1,968,734, respectively.

Using the Basic Financial Statements

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

Reporting the Association's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal 2011?" The statement of net assets and the statement of revenues, expenses, and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Notes to the Basic Financial Statements

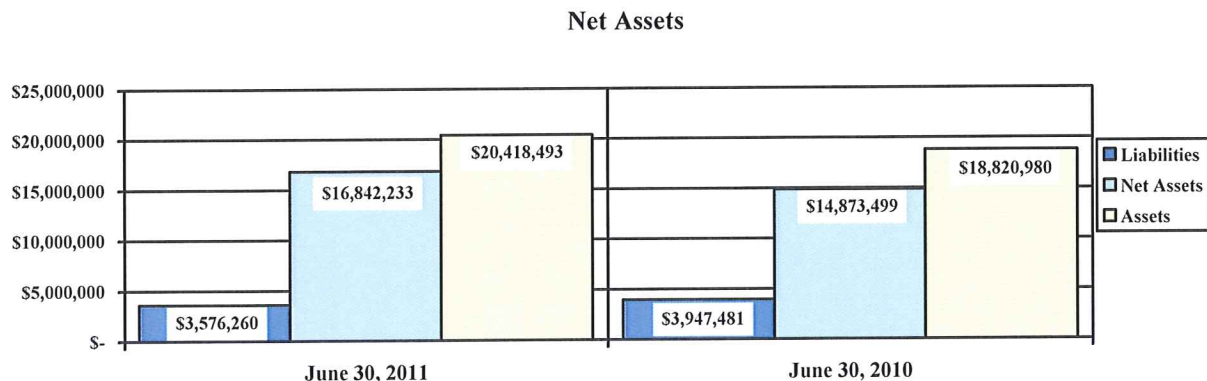
The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-16 of this report.

The table below provides a summary of the Association's net assets for 2011 and 2010.

	Net Assets	
	2011	2010
<u>Current assets:</u>		
Cash	\$ 2,615,640	\$ 3,508,737
Investments	17,736,565	15,230,730
Receivables:		
Accounts	27,280	57,224
Accrued interest	32,574	21,212
Prepayments	6,434	3,077
Total current assets	20,418,493	18,820,980
<u>Current liabilities:</u>		
Accounts payable	12,524	5,000
Unearned revenue	512,736	691,481
Benefit obligations	3,051,000	3,251,000
Total current liabilities	3,576,260	3,947,481
<u>Net assets:</u>		
Unrestricted	\$16,842,233	\$14,873,499

Net assets increased by \$1,968,734 primarily due to participant contribution revenue exceeding claims expenses of the current year by approximately \$2.9 million. The benefit obligations liability decreased \$200,000 based upon the report of the Associations independent actuary.

The chart below shows a breakdown of the Association's assets, liabilities and net assets for 2011 versus 2010:



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

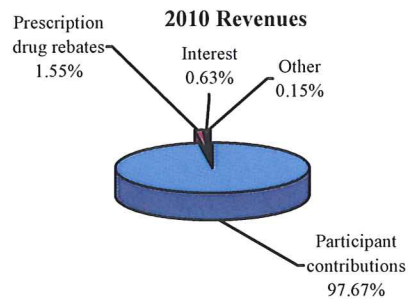
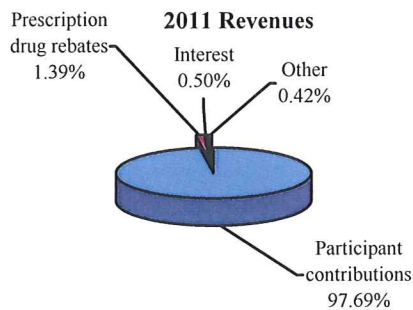
The table below shows the changes in net assets for fiscal year 2011 and 2010.

Change in Net Assets

	<u>2011</u>	<u>2010</u>
<u>Revenues:</u>		
Participant contributions	\$ 22,853,733	\$ 22,309,077
Prescription drug rebates	324,378	355,819
Investment income	116,677	143,005
Other	98,967	34,142
Total revenue	<u>23,393,755</u>	<u>22,842,043</u>
<u>Expenses:</u>		
Claims	19,950,049	19,483,005
Third party administration fees	831,337	790,092
Insurance premiums	523,885	513,308
Professional fees	109,545	119,979
Miscellaneous	10,205	14,414
Total expenses	<u>21,425,021</u>	<u>20,920,798</u>
Change in net assets	1,968,734	1,921,245
Net assets at beginning of year	<u>14,873,499</u>	<u>12,952,254</u>
Net assets at end of year	<u>\$ 16,842,233</u>	<u>\$ 14,873,499</u>

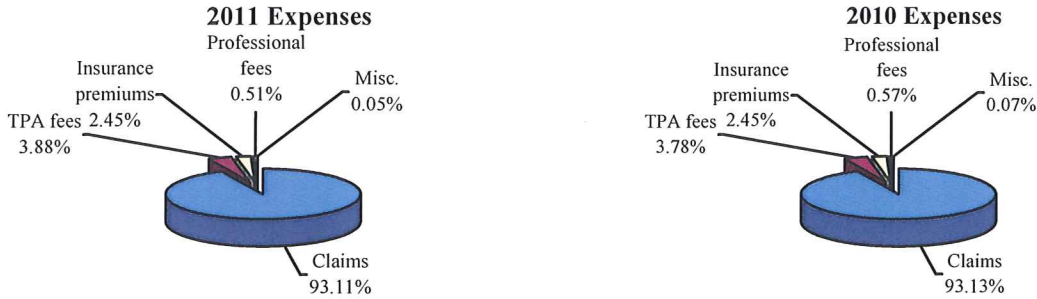
During 2011, the Association saw an increase in claims expenses paid. Other revenue consists primarily of subrogation revenue received by the Association during fiscal year 2011.

The charts below reflect the percentage of the revenues and expenses in 2011 versus 2010:



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



Debt Administration

The Association had no debt obligations outstanding at June 30, 2011.

Current Financial Related Activities

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

Contacting the Associations’s Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Association’s finances and to show the Association’s accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Betty Schweifert, Treasurer, North Point ESC, 2900 Columbus Avenue, Sandusky, Ohio 44870 or by calling (419) 625-6274.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

Current assets:	
Cash	\$ 2,615,640
Investments	17,736,565
Receivables:	
Accounts	27,280
Accrued interest	32,574
Prepayments.	<u>6,434</u>
Total current assets	<u>20,418,493</u>
Current liabilities:	
Accounts payable	12,524
Unearned revenue.	512,736
Benefit obligations	<u>3,051,000</u>
Total current liabilities	<u>3,576,260</u>
Net assets:	
Unrestricted	<u>16,842,233</u>
Total net assets	<u><u>\$ 16,842,233</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 ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating revenues:	
Participant contributions	\$ 22,853,733
Prescription drug rebates	324,378
Other	<u>98,967</u>
Total operating revenues	<u>23,277,078</u>
 Operating expenses:	
Claims	19,950,049
Third party administration fees.	831,337
Insurance premiums	523,885
Professional fees.	109,545
Miscellaneous	<u>10,205</u>
Total operating expenses	<u>21,425,021</u>
Operating income	<u>1,852,057</u>
 Nonoperating revenues:	
Investment income	<u>116,677</u>
Total nonoperating revenues	<u>116,677</u>
Change in net assets	1,968,734
Net assets, July 1	<u>14,873,499</u>
Net assets, June 30.	<u><u>\$ 16,842,233</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, 2011

Cash flows from operating activities:	
Cash received from participants	\$ 22,690,668
Cash received from prescription drug rebates	326,230
Cash received from other operations	111,379
Cash payments for claims	(20,150,049)
Cash payments for third party administration fees	(835,337)
Cash payments for insurance premiums	(523,912)
Cash payments for professional fees	(98,021)
Cash payments for miscellaneous	(13,535)
	<hr/>
Net cash provided by operating activities	1,507,423
 Cash flows from investing activities:	
Investments purchased	(17,736,565)
Investments sold	15,248,541
Interest and dividends received	87,504
	<hr/>
Net cash used in investing activities	(2,400,520)
Net decrease in cash	(893,097)
Cash, July 1	3,508,737
Cash, June 30	\$ 2,615,640
	<hr/> <hr/>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,852,057
 Changes in assets and liabilities:	
Decrease in accounts receivable	29,944
(Increase) in prepayments	(3,357)
Increase in accounts payable	7,524
Decrease in unearned revenue	(178,745)
Decrease in benefit obligations	(200,000)
	<hr/>
Net cash provided by operating activities	\$ 1,507,423
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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, 2011**

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 \$300,000 represents the maximum amount of claims to be paid annually by the Association per participant.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The Association's significant accounting policies are described below.

A. Reporting Entity

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

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

B. Fund Accounting

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

C. Basis of Accounting/Masurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

For financial statement presentation purposes, the Association utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Association's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Association's operations are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

D. Cash and Investments

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

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

During 2011, investments of the Association were limited to nonnegotiable certificates of deposit, U.S. Treasury notes, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

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

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

E. Budgetary Process

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 \$6,434 at June 30, 2011.

G. Unearned Revenue

Unearned revenues represent premiums paid in advance by Association members at June 30, 2011. The premiums will be recognized as revenue in the month to which they pertain.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net assets at June 30, 2011.

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 2011.

NOTE 3 - CASH AND INVESTMENTS

In accordance with the Constitution of the Association, the investment of the Association funds shall be subject to the laws of the State of Ohio concerning the investment and management of public funds, particularly Chapter 135 of the Ohio Revised Code, and are the responsibility of the fiscal agent. The following disclosures relate to the deposits and investments of the Association.

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all Association deposits was \$14,157,302. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$4,382,814 of the Association's bank balance of \$14,149,950 was exposed to custodial risk as discussed below, while \$9,767,136 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - CASH AND INVESTMENTS - (Continued)

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

B. Investments

As of June 30, 2011, the Association had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Federal Home Loan Bank Bond	\$ 1,009,120	\$ -	\$ -	\$ -	\$ 1,009,120
U.S. Treasury Note	1,007,023	-	-	-	1,007,023
STAR Ohio	4,178,760	4,178,760	-	-	-
	<u>\$ 6,194,903</u>	<u>\$ 4,178,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,016,143</u>

The weighted average maturity of investments is 0.55 years.

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

Credit Risk: The Association's investments in federal agency securities and a U.S Treasury note were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized rating service. The Association's investment policy does not specifically address credit risk beyond requiring the Association to only invest in securities authorized by State statute.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - CASH AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Association places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Association at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Federal Home Loan Bank Bond	\$ 1,009,120	16.29
U.S. Treasury Note	1,007,023	16.26
STAR Ohio	<u>4,178,760</u>	<u>67.45</u>
	<u>\$ 6,194,903</u>	<u>100.00</u>

Investment income consisted of the following for the year ended June 30, 2011:

Net unrealized and realized gain on investments	\$ 17,811
Interest and dividends	<u>98,866</u>
Total	<u>\$ 116,677</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, 2011 totaling \$3,051,000, which includes reported claims not yet paid, claims incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. The claims liability is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economical factors. This amount is actuarially determined using historical trends in lag between the date a claim is incurred and paid.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2011	\$ 3,251,000	\$ 19,950,049	\$ (20,150,049)	\$ 3,051,000
2010	3,721,900	19,483,005	(19,953,905)	3,251,000

NOTE 5 - TAX STATUS

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 6 - LITIGATION

The Association is not party to any litigation.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of accounts 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, 2011 were \$27,280 and \$32,574, respectively.

NOTE 8 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2011, the Association has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. GASB Statement No. 54 did not have an effect on the financial statements of the Association.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Association.

NOTE 9 - RELATED PARTY TRANSACTION

The fiscal agent of the Association is a member district of the Association. The fiscal agent is responsible for administering the financial transactions of the Association and is compensated for these services. The total amount paid to the fiscal agent for the services provided for the year ended June 30, 2011 was \$31,038.



INDEPENDENT AUDITORS' 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

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

We have audited the financial statements of Huron-Erie School Employee Insurance Association (the "Association") as of and for the year ended June 30, 2011, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Association's Board of Trustees, management, and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "John O'Brien".

February 13, 2012



Dave Yost • Auditor of State

HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 24, 2012**