

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

ERIE COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2016





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Huron-Erie School Employees Insurance Association, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 5, 2016

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HURON-ERIE SCHOOL EMPLOYEES INSURANCE ASSOCIATION
ERIE COUNTY
AUDIT REPORT
For the Year Ended June 30, 2016

Table of Contents

<u>Title</u>	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Management's Unaudited Discussion and Analysis	3 - 6
Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 16
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	17
Schedule of Prior Audit Findings	19

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

INDEPENDENT AUDITOR'S REPORT

Huron-Erie School Employees Insurance Association
Erie County
1210 Bogart Road
Sandusky, OH 44870

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Huron-Erie School Employees Insurance Association, Erie County, Ohio (the Association), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron-Erie School Employees Insurance Association, Erie County, Ohio as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

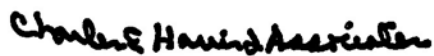
Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

The Association has not presented the revenue and claims development information that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement although not required to be part of the basic financial statements. Management has omitted the supplementary claim information that the GASB require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements was not modified due to this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
September 29, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016 are as follows:

- In total, net position was \$15,273,590 at June 30, 2016. This represents an increase of \$1,107,112 or 7.82% from fiscal year 2015.
- The Association had operating revenues of \$27,520,802 and operating expenses of \$26,451,611 for fiscal year 2016. The Association had \$37,921 in interest revenue. This figure includes interest earned plus any changes in the fair market value of investments held by the Association. Operating income and the change in net position for the fiscal year were \$1,069,191 and \$1,107,112, respectively.

Using the Basic Financial Statements

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

Reporting the Association's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal 2016?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Notes to the Basic Financial Statements

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

The table below provides a summary of the Association's net position for 2016 and 2015.

	Net Position	
	<u>2016</u>	<u>2015</u>
<u>Current assets:</u>		
Cash	\$ 5,072,312	\$ 5,537,494
Investments	12,017,971	12,502,602
Receivables:		
Accounts	757,084	353,742
Accrued interest	2,644	22,788
Prepayments	<u>9,134</u>	<u>7,976</u>
Total current assets	<u>17,859,145</u>	<u>18,424,602</u>
<u>Current liabilities:</u>		
Accounts payable	8,705	15,962
Unearned revenue	342,864	490,657
Benefit obligations	<u>2,233,986</u>	<u>3,751,505</u>
Total current liabilities	<u>2,585,555</u>	<u>4,258,124</u>
<u>Net position:</u>		
Unrestricted	<u>\$ 15,273,590</u>	<u>\$ 14,166,478</u>

Net position increased by \$1,107,112 or 7.82%. The Association did not give participants a premium holiday during fiscal year 2016. This is the primary reason for the increase in participant contribution revenue during fiscal year 2016. The increase in participant contributions was able to completely offset the increase in expenses in fiscal year 2016.

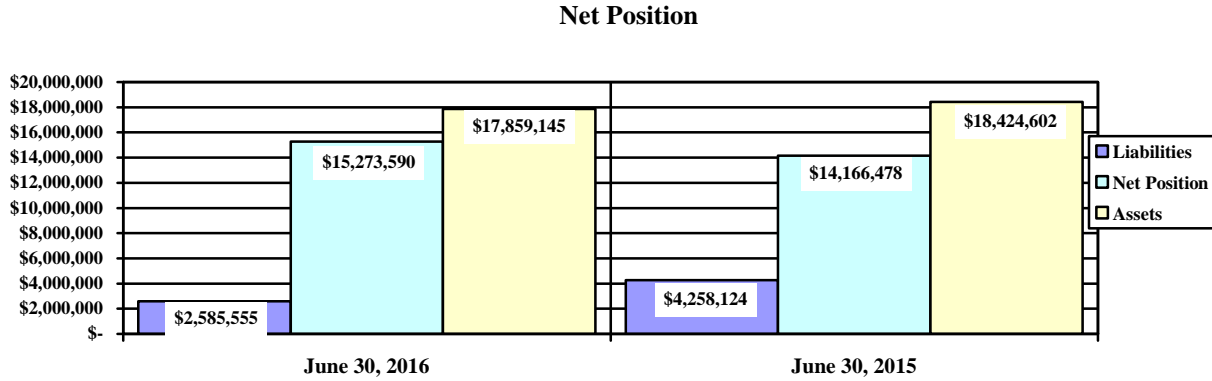
Unearned revenues, which represent participant contributions paid to the Association for fiscal year 2016, decreased approximately \$148,000. The benefit obligations liability decreased \$1,517,519 based upon the report of the Association's independent actuary.

The Association's investment income increased by approximately \$4,600 during fiscal year 2016 when compared to fiscal year 2015. This increase was due to higher interest rates on the Association's investments.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The chart below shows a breakdown of the Association's assets, liabilities and net position for 2016 versus 2015:



The table below shows the changes in net position for fiscal year 2016 and 2015.

Change in Net Position

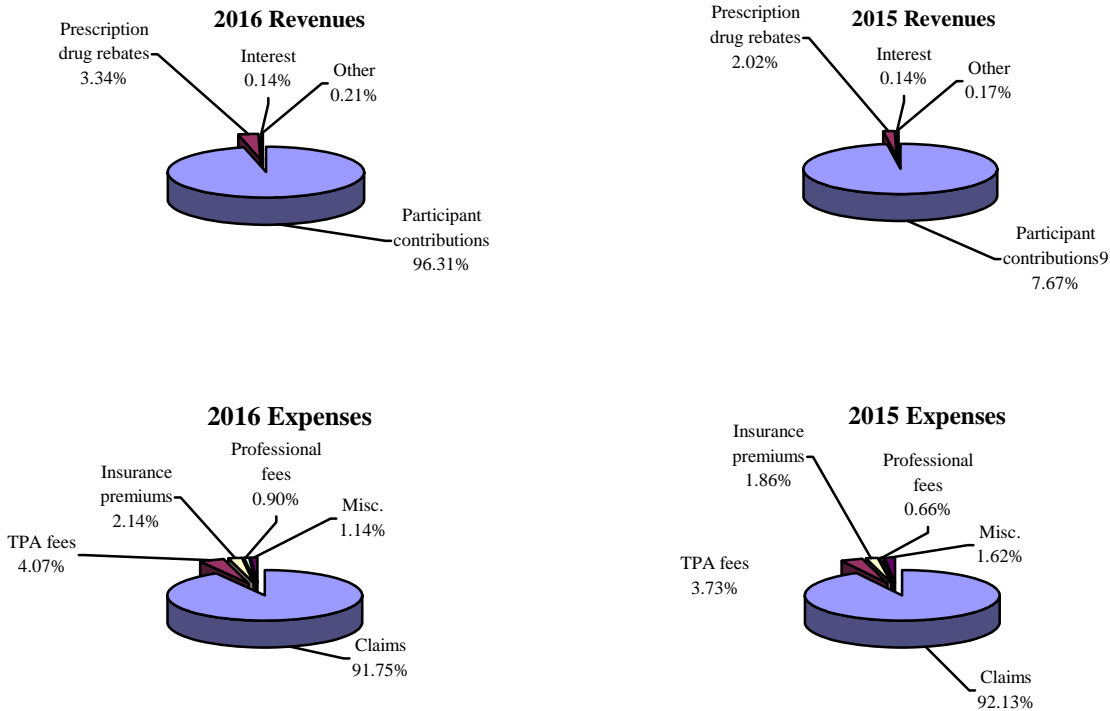
	<u>2016</u>	<u>2015</u>
<u>Revenues:</u>		
Participant contributions	\$ 26,541,662	\$ 23,946,374
Prescription drug rebates	921,580	495,571
Investment income	37,921	33,356
Other	<u>57,560</u>	<u>42,185</u>
Total revenue	<u>27,558,723</u>	<u>24,517,486</u>
<u>Expenses:</u>		
Claims	24,269,436	23,101,208
Third party administration fees	1,077,733	933,617
Insurance premiums	565,156	466,629
Professional fees	237,540	166,099
Miscellaneous	<u>301,746</u>	<u>407,069</u>
Total expenses	<u>26,451,611</u>	<u>25,074,622</u>
Change in net position	1,107,112	(557,136)
Net position at beginning of year	<u>14,166,478</u>	<u>14,723,614</u>
Net position at end of year	<u>\$ 15,273,590</u>	<u>\$ 14,166,478</u>

During 2016, the Association saw an approximately \$1,168,000 increase in claims expenses. The other significant change is the increase of approximately \$2.6 million in participant contribution revenue from 2016 to 2015. The increase in participant contributions is mainly due to the Association's decision to not have any premium holiday in fiscal year 2016 compared to having one in fiscal year 2015.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The charts below reflect the percentage of the revenues and expenses in 2016 versus 2015:



Current Financial Related Activities

The Association developed and approved a Wellness plan that all districts were encouraged to negotiate to. Currently all thirteen districts (some of the districts may only have a portion of their employees because of negotiations with certified staff vs classified staff) that have negotiated this wellness plan with different effective dates. Under this plan, member districts will receive uniform benefits and health plan arrangements. Language was also developed for Working Spouse restrictions that require spouses of covered employees to elect at least "single" coverage from their place of employment in order to be eligible to be covered as secondary under the Association's plan. As an incentive, districts that have the Association's Working Spouse Language have lower premiums for their health/prescription coverage. The Association expects to see cost savings as a result of these changes and expects to be able to market their services better to insurance carriers.

Contacting the Association's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2016

Current assets:	
Cash	\$ 5,072,312
Investments	12,017,971
Receivables:	
Accounts	757,084
Accrued interest	2,644
Prepayments.	<u>9,134</u>
 Total current assets	 <u>17,859,145</u>
 Current liabilities:	
Accounts payable	8,705
Unearned revenue.	342,864
Benefit obligations	<u>2,233,986</u>
 Total current liabilities	 <u>2,585,555</u>
 Net position:	
Unrestricted	<u>15,273,590</u>
 Total net position	 <u><u>\$ 15,273,590</u></u>

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

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating revenues:	
Participant contributions	\$ 26,541,662
Prescription drug rebates	921,580
Other	<u>57,560</u>
Total operating revenues	<u>27,520,802</u>
 Operating expenses:	
Claims	24,269,436
Third party administration fees.	1,077,733
Insurance premiums	565,156
Professional fees.	237,540
Miscellaneous	<u>301,746</u>
Total operating expenses	<u>26,451,611</u>
Operating income	<u>1,069,191</u>
 Nonoperating revenues:	
Investment income	<u>37,921</u>
Total nonoperating revenues	<u>37,921</u>
Change in net position.	1,107,112
Net position, July 1	<u>14,166,478</u>
Net position, June 30.	<u><u>\$ 15,273,590</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, 2016

Cash flows from operating activities:	
Cash received from participants	\$ 26,190,703
Cash received from prescription drug rebates	785,722
Cash received from other operations	57,560
Cash payments for claims	(25,851,273)
Cash payments for third party administration fees	(1,079,013)
Cash payments for insurance premiums	(566,309)
Cash payments for professional fees	(243,417)
Cash payments for miscellaneous	(301,851)
	(1,007,878)
 Cash flows from investing activities:	
Investments purchased	(12,017,971)
Investments sold	12,502,602
Interest and dividends received	58,065
	542,696
Net cash used in operating activities	(1,007,878)
Net cash provided by investing activities	542,696
Net increase in cash	(465,182)
Cash, July 1	<u>5,537,494</u>
Cash, June 30	<u><u>\$ 5,072,312</u></u>
 Reconciliation of operating income to net cash used operating activities:	
Operating income	\$ 1,069,191
Changes in assets and liabilities:	
(Increase) in accounts receivable	(403,342)
(Increase) in prepayments	(1,158)
(Decrease) in accounts payable	(7,257)
(Decrease) in unearned revenue	(147,793)
(Decrease) in benefit obligations	(1,517,519)
	(1,517,519)
Net cash used in operating activities	<u><u>\$ (1,007,878)</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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Huron-Erie School Employee Insurance Association (the "Association") is a shared public entity risk pool created on January 30, 1982 for the purpose of providing medical, dental and prescription drug insurance benefits for employees, and their dependents or designated beneficiaries, of the participating member districts in Erie and Huron Counties. The participating employers make contributions to the Association sufficient to cover substantially all costs of the Association. The Association is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Association's tax-exempt status.

Each of the thirteen participating member districts is represented on the Board of Trustees of the Association (the "Board") by their respective superintendent or a designate of their superintendent. The Board is authorized to pay reasonable compensation and necessary expenses incurred in the performance of services as consistent with the purpose of the Association, including for the payments of benefits, stop loss insurance premiums and other administrative expenses.

The Association may be terminated at any time by a two-thirds vote of the majority of the member districts of the Association pursuant to relevant laws and regulations. Any assets of the Association remaining after payment of all obligations shall be distributed to the member districts in a manner consistent with the purpose for which the Association was established, according to their proportionate share of contributions paid during the previous plan year.

The Association incurs premiums for specific stop loss insurance. The specific stop loss limit of \$400,000 represents the maximum amount of claims to be paid annually by the Association per participant.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The Association's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Association. For the Association, this consists of a single enterprise fund.

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

B. Fund Accounting

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

C. Basis of Accounting/Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

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

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

D. Cash and Investments

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

The treasurer of the Association purchases specific investments and maintains a separate checking account for the Association.

During 2016, investments of the Association were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio 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, 2016.

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

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2016, 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 \$9,134 at June 30, 2016.

G. Unearned Revenue

Unearned revenues represent premiums paid in advance by Association members at June 30, 2016. The premiums will be recognized as revenue in the month to which they pertain.

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association had no restricted net position at June 30, 2016.

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 2016.

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, 2016, the carrying amount of all Association deposits was \$12,850,915. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$3,625,620 of the Association's bank balance of \$12,881,526 was exposed to custodial risk as discussed below, while \$9,255,906 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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 Association to a successful claim by the FDIC.

B. Investments

As of June 30, 2016, 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>
STAR Ohio	\$ 4,239,368	\$ 4,239,368

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

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

Concentration of Credit Risk: The Association places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Association at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,239,368	100.00

Investment income consisted of the following for the year ended June 30, 2016:

Interest and dividends	<u>\$ 37,921</u>
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**HURON-ERIE SCHOOL EMPLOYEE INSURANCE ASSOCIATION
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, 2016 totaling \$2,233,986, which includes reported claims not yet paid, claims incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. This amount is actuarially determined using historical trends in lag between the date a claim is incurred and paid.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Drug Claim Credit Receivable</u>	<u>Ending Balance</u>
2016	\$ 3,751,505	\$ 24,269,436	\$ (25,851,273)	\$ 64,318	\$ 2,233,986
2015	3,871,358	23,101,208	(23,221,061)	-	3,751,505

NOTE 5 - TAX STATUS

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

NOTE 6 - LITIGATION

The Association is not party to any litigation.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts (administrative fees) and accrued interest of investments of the Association. These receivables are considered collectible in full and are expected to be collected in the subsequent year. The amount of accounts and accrued interest receivable at June 30, 2016 were \$757,084 and \$2,644, respectively.

NOTE 8 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2016, the Association has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 8 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Association.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Association.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Association.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 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, 2016 was \$28,557.

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

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

Huron-Erie School Employees Insurance Association
Erie County
1210 Bogart Road
Sandusky, OH 44870

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Huron-Erie School Employees Insurance Association, Erie County, (the Association) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control Over Financial Reporting

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

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

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

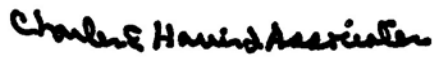
Compliance and Other Matters

As part of reasonably assuring whether the Association's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 Association's management in a separate letter dated September 29, 2016.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.
September 29, 2016

Huron-Erie School Employees Insurance Association
Erie County

Schedule of Prior Audit Findings
June 30, 2016

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2015-001	Ohio Rev. Code § 9.833 – Timely filing of annual financial report	Yes	Finding no longer valid



Dave Yost • Auditor of State

HURON ERIE SCHOOL EMPLOYEE ASSOCIATION

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 15, 2016**