

Ohio School Employees
Insurance Consortium
Summit County, Ohio

Audited Financial Statements

For the Fiscal Years Ended
September 30, 2013 and 2014



Dave Yost • Auditor of State

Board of Directors
Ohio Schools Employees Insurance Consortium
6075 Manchester Road
Akron, Ohio 44319

We have reviewed the *Independent Auditor's Report* of the Ohio Schools Employees Insurance Consortium, Summit County, prepared by Rea & Associates, Inc., for the audit period October 1, 2012 through September 30, 2014. 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 Schools 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

May 1, 2015

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

*For the Fiscal Years Ended September 30, 2013 and 2014
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January 27, 2015

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Ohio School Employees Insurance Consortium, Summit County, Ohio (the Consortium) as of and for the years ended September 30, 2013 and 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 Consortium'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 Consortium'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 opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Consortium prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of September 30, 2013 and 2014, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Ohio School Employees Insurance Consortium, Summit County, Ohio as of September 30, 2013 and 2014, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, 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. 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 Consortium's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Medina, Ohio

Ohio School Employees Insurance Consortium
Summit County, Ohio
Statements of Receipts, Disbursements and Changes in Fund Cash Balances
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating Cash Receipts		
Charges for Services	\$ 638,489	\$ 590,563
Prescription Drug Rebates	25,187	33,407
<i>Total Operating Cash Receipts</i>	<u>663,676</u>	<u>623,970</u>
Operating Cash Disbursements		
Payments to Third-Party Administrator:		
Claims Expense	0	69,998
Stop Loss Premiums	563,904	485,031
Administration Fees	209,435	214,012
Professional Fees	59,715	60,419
<i>Total Operating Cash Disbursements</i>	<u>833,054</u>	<u>829,460</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(169,378)</u>	<u>(205,490)</u>
Non-operating Cash Receipts		
Interest Receipts	765	595
<i>Net Change in Fund Cash Balances</i>	(168,613)	(204,895)
<i>Fund Cash Balances, October 1</i>	<u>1,065,104</u>	<u>1,269,999</u>
<i>Fund Cash Balances, September 30</i>	<u>\$ 896,491</u>	<u>\$ 1,065,104</u>

See accompanying notes to the financial statements.

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

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.

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: 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.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through September 30, 2014 and 2013.

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 Directors 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 Financial Statements

For the Years Ended September 30, 2014 and 2013

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.

The Consortium maintains a checking account. Deposits are insured by the Federal Depository Insurance Corporation. As of September 30, 2014, \$646,491 of the School District's bank balance of \$896,491 was exposed to custodial risk while \$250,000 was covered by Federal Deposit Insurance Corporation. As of September 30, 2013, \$815,144 of the School District's bank balance of \$1,065,144 was exposed to custodial risk while \$250,000 was covered by Federal Deposit Insurance Corporation. The Consortium is not required by law to have an investment policy.

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

	<u>2014</u>	<u>2013</u>
Demand Deposits	<u>\$ 896,491</u>	<u>\$ 1,065,104</u>

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.

Ohio School Employees Insurance Consortium
Summit County, Ohio

Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

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. Effective August 31, 2012, the Consortium has no fully-funded members.

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.

January 27, 2015

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, 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 Ohio School Employees Insurance Consortium, Summit County, Ohio (the Consortium) as of and for the years ended September 30, 2013 and 2014, and the related notes to the financial statements, which collectively comprise the Consortium's financial statements and have issued our report thereon dated January 27, 2015, 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.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Entity'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 Entity'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 Consortium'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*.

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 Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
MAY 14, 2015**