

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

REGULAR AUDIT

JULY 1, 2014 – JUNE 30, 2015





Dave Yost • Auditor of State

Board of Directors
School Employees Insurance Consortium
475 Western Ave Ste E
Chillicothe, OH 45601

We have reviewed the *Independent Auditor's Report* of the School Employees Insurance Consortium, Ross County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 23, 2015

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

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INDEPENDENT AUDITOR'S REPORT

School Employees Insurance Consortium
Ross County
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statement and related notes of the School Employees Insurance Consortium, Ross County, (the Consortium) as of and for the fiscal year ended June 30, 2015.

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 this financial statement 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 statement is 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 statement 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.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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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 (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Consortium does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

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 statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2015, or changes in financial position or cash flows thereof for the fiscal year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash balance of the School Employees Insurance Consortium, Ross County as of June 30, 2015, and its cash receipts and disbursements for the fiscal year 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 November 10, 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.

Wilson, Sherman & Sons, Inc.

November 10, 2015
Newark, Ohio

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Cash Receipts:	
Charges for Services	\$ 12,955,247
Other Revenue	<u>12,943</u>
 Total Operating Cash Receipts	 <u>12,968,190</u>
Operating Cash Disbursements:	
Purchased Services	733,235
Claims	<u>12,181,287</u>
 Total Operating Cash Disbursements	 <u>12,914,522</u>
 Operating Income	 <u>53,668</u>
Non-Operating Cash Receipts:	
Earnings on Investments	1,236
Reserve Payments Received from Participating Districts	<u>77,662</u>
 Total Non-Operating Cash Receipts	 <u>78,898</u>
 Net Cash Receipts Over Cash Disbursements	 132,566
 Cash Balance, July 1	 <u>2,908,907</u>
 Cash Balance, June 30	 <u><u>\$ 3,041,473</u></u>

The notes to the financial statement are an integral part of this statement.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The School Employees Insurance Consortium, Ross County, Ohio (the Consortium) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The Consortium administers a cooperative health insurance program. The Consortium is a body politic and corporate established for the purposes of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Board of Directors is the legislative and managerial body of the Consortium. The Board of Directors is composed of a representative from member school districts who has been appointed by their respective school district (normally the Superintendent). At June 30, 2015, six school districts were actively participating in the Consortium.

The Consortium's management believes these financial statements present all activities for which the Consortium is financially accountable.

B. Basis of Accounting

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Consortium recognizes receipts when received in cash rather than when earned, and recognized disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Consortium's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Consortium values U.S. Treasury Bonds, its money market mutual fund and certificates of deposit at cost.

D. Budgetary Process

The Consortium is not required to adopt a budget; however, member school districts are required by Ohio law to adopt an annual budget.

E. Member Contributions

Member school districts contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Board of Directors. The premiums are recorded and pooled by the Fiscal Agent in a single fund from which eligible claims are paid for member school district employees and their covered dependents.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2015
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Member Contributions (Continued)

Each member school district assumes the risks of all other members, to the extent contributions by that member school districts are paid into the Consortium's fund.

The Fiscal Agent tracks member school district's contributions made to the single fund and the disbursements are paid for the member school district's type of coverage.

F. Fund Accounting

The Consortium uses fund accounting to segregate cash and investments that are restricted as to use and uses an enterprise fund to account for operations (a) that are financed and operated similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and 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.

Operating receipts are those receipts that are generated directly from the primary activity of the Consortium. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Consortium. All receipts and disbursements not meeting this definition are reported as non-operating.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Consortium may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof. The carrying amount of cash and investments at June 30 was as follows:

Demand deposits	\$1,042,798
Money market mutual fund	470,047
U.S. Treasury bonds	928,628
Certificates of deposit	600,000
Total investments	<u>1,998,675</u>
Total deposits and investments	<u><u>\$3,041,473</u></u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: The Federal Reserve holds the Consortium's U.S. Treasury Bonds in book-entry form by, in the name of the Consortium's financial institution. The financial institution maintains records identifying the Consortium as owner of these securities.

Investments in money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2015
(Continued)**

3. RISK MANAGEMENT

The Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health insurance program. The Consortium, which is open to any Board of Education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide a health insurance program that is adequate to meet the needs of each member school district under its benefit plan for employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both for individual claims and in the pool's aggregate.

A. Medical and Prescription Benefits

The Consortium contracts with a third party administrator, Medical Mutual of Ohio, Inc. to process and pay health claims and contracts with Express Scripts Inc to process and pay prescription claims incurred by its members. Members pay monthly premiums to the Consortium's Fiscal Agent which are recorded in a single fund for accounting purposes. The Fiscal Agent then wires claim payments to the third party administrator weekly for health and prescription claims processed.

B. Stop-Loss Coverage

The Consortium employs stop-loss coverage to reduce its risk that large losses may be incurred on medical claims. This allows the Consortium to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

C. Actuarial Valuation

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in Actuarial Standards of Practice No. 5, *Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

D. Member District Withdrawal

Member school districts may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. A member may be subject to *mandatory withdrawal* if the member fails to remit any of its monthly contributions within thirty days after the same unless 1) the Member has petitioned the Board of Directors for an extension of time for payment, and 2) the Board of Directors has by resolution approved an extension to a date certain. If an extension is not authorized the Member shall be effective retroactive to the first day of the month on which the Member failed to remit its monthly contributions. A member may *voluntary withdraw* only after providing the Fiscal Agent 180 days notice and also authorization by the Board of Directors. Upon the opinion of the Board of Directors, if the amount of money in the Consortium reserves are adequate, the Board of Directors shall authorize payment to the withdrawing Member as follows:

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2015
(Continued)**

3. RISK MANAGEMENT (Continued)

D. Member District Withdrawal (Continued)

1) If a Member leaves less than three years from the date it joined the Consortium, the Consortium shall keep 100% of the Member's attributable reserves; 2) If a Member leaves three to ten years from the date it joined the Consortium, the Consortium shall keep 50% of the Member's attributable reserves; and 3) If a Member leaves more than ten years from the date it joined the Consortium, the Consortium shall keep 25% of the Member's attributable reserves. Authorization of such disbursement is solely within the discretion of the Board of Directors and shall not be unreasonably withheld.

4. CLAIMS LIABILITY

The incurred but not reported (IBNR) claims under the health plan at June 30, 2015 (the liability) are used by the Consortium to help determine the rates to charge members. A comparison of cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash and investments	\$3,041,473	\$2,908,907	\$3,452,826
Actuarial liabilities	1,311,200	1,320,800	1,473,300

The trend data above is useful in assessing the adequacy of rates the Consortium charges its members. A decreasing liability indicates current rates may be sufficient to cover liabilities that members have incurred while an increasing liability indicates rates may not be sufficient. The Consortium currently pays all claims immediately upon presentation for payment by the Third Party Administrator.

The Consortium used an actuary to estimate the liability and determine if an adequate reserve has been established by its member school districts. The Consortium has implemented the equalized rates (pooling method) to account for Member claims and maintain adequate reserve balances effective July 1, 2009.

5. JOINTLY GOVERNED ORGANIZATION

The Consortium is a legally separate entity. The Consortium is a jointly governed organization with member school districts. The governing board consists of the superintendent or other designee appointed by each of the members of the Consortium. The Consortium does not have an ongoing financial interest in or ongoing financial responsibility for the member school districts other than the claims paid on behalf of the member school district employees.

The Consortium utilizes the Ross-Pike Educational Service Center (the Fiscal Agent) as its fiscal agent.



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

School Employees Insurance Consortium
Ross County
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

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 statement of the School Employees Insurance Consortium, Ross County, (the Consortium) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statement and have issued our report thereon dated November 10, 2015 wherein we noted the Consortium followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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 statement, but not to the extent necessary to opine on the effectiveness of the Consortium'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 Consortium's financial statement. 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.

Wilson, Shannon & Snow, Inc.

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Compliance and Other Matters

As part of reasonably assuring whether the Consortium's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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.

Wilson, Shuman & Sons, Inc.

November 10, 2015
Newark, Ohio



Dave Yost • Auditor of State

ROSS COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

ROSS 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
JANUARY 5, 2016**