

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**





Mary Taylor, CPA  
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**Auditor of State  
Betty Montgomery**

Board of Directors  
School Employees Insurance Consortium  
19463 Pherson Pike  
Williamsport, Ohio 43164

We have reviewed the *Independent Auditors' Report* of the School Employees Insurance Consortium, Ross County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 28, 2006

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

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## INDEPENDENT AUDITORS' REPORT

School Employees Insurance Consortium  
Ross County  
19463 Pherson Pike  
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the accompanying financial statement of the School Employees Insurance Consortium, Ross County, Ohio (the Consortium) as of and for the fiscal year ended June 30, 2006. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Consortium to reformat its financial statement presentation and make other changes effective for the fiscal year ended June 30, 2006. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statement does not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Consortium has elected not to reformat its statement. Since this Consortium does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the fiscal year ended June 30, 2006 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the School Employees Insurance Consortium, Ross County as of June 30, 2006, or its change in financial position for the fiscal year then ended.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**

Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
1-800-523-6611  
FAX (740) 345-5635

Also, 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, 2006, and its cash receipts and disbursements for the fiscal year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Consortium to include a Management's Discussion and Analysis for the fiscal year ended June 30, 2006. The Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2006 on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

*Wilson, Shuman & Snow, Inc.*

November 27, 2006

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGE IN CASH BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>Operating Cash Receipts</b>	
Charges for Services	\$ 21,616,988
Other Revenue	<u>701,383</u>
Total Operating Cash Receipts	<u>22,318,371</u>
<b>Operating Cash Disbursements:</b>	
Purchased Services	1,991,786
Claims	<u>19,707,086</u>
Total Operating Cash Disbursements	<u>21,698,872</u>
Operating Income	<u>619,499</u>
<b>Non-Operating Cash Receipts</b>	
Earnings on Investments	<u>25,302</u>
Total Non-Operating Cash Receipts	<u>25,302</u>
Net Cash Receipts Over/(Under) Cash Disbursements	644,801
Cash Balance, July 1	<u>3,547,865</u>
<b>Cash Balance, June 30</b>	<b><u><u>\$ 4,192,666</u></u></b>

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

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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, 2006, fourteen school districts were actively participating in the consortium. The Consortium had no new school districts join membership or any current school district rescind its membership during fiscal year 2006.

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

**B. Basis of Accounting**

The financial statement follows the basis of accounting the Auditor of State prescribes or permits. 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 recognizes disbursements when paid rather than when a liability is incurred.

The statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash**

The Consortium maintains an interest bearing checking account.

**D. Budgetary Process**

The member school districts of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself does not adopt a budget, but the Consortium's Fiscal Agent adopts a budget and files it with the Pickaway County Auditor.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006  
(Continued)**

**2. EQUITY IN POOLED CASH**

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30 was as follows:

	2006
Demand deposits	<u>\$4,192,666</u>

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

**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 and dental 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 (\$100,000) and in the pool's aggregate (\$16,414,031).

Each member of the Consortium is obligated to pay a fee based on an estimate of the member's share of the Consortium costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health and dental insurance premiums, and their proportionate share of the administrative cost of the Consortium. The actual balance of each member school district's account is determined on an annual basis. If a member is in a deficit position, the following is required: 1) If the deficit balance is less than \$50,000, the school district is not obligated to the Consortium; 2) If the deficit balance is between \$50,000 and \$200,000, the school district is obligated for one-half of the difference between \$50,000 and the obligated balance immediately; and 3) If the deficit balance is over \$200,000, the school district is obligated for one-half of the difference between \$50,000 and \$200,000 and one-third of the amount over \$200,000. Member school districts with deficit balances can elect to apply the deficit balance monthly by paying additional amounts in addition to their monthly premiums.

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. The obligation for the payment of any negative balance in the member's account and the remaining claims of any of its eligible members is the responsibility of each individual school district upon withdrawal from the Consortium.

**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006  
(Continued)**

**4. CLAIMS LIABILITY**

The incurred but not reported (IBNR) claims under the health plan at June 30, 2006 (the liability) are used by the Consortium to help determine the rates to charge members. The liability as of June 30 follows:

<u>Fiscal Year</u>	<u>Estimated Claims Incurred But Not Reported at June 30</u>
2006	\$2,457,768
2005	\$2,746,059
2004	\$2,303,079

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. 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 reserve payments by the member school districts started July 1, 2002.

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**SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006  
(Continued)**

**5. CASH POSITION OF MEMBER SCHOOL DISTRICTS**

At June 30, members of the Consortium had the following respective cash position, including their respective portion of the Consortium's miscellaneous account:

<u>Member School District</u>	<u>Cash Position at 6/30/06</u>
Adena Local School District	\$ (175,855)
Bright Local School District	17,297
Circleville Local School District	390,599
Huntington Local School District	741,873
Logan Elm Local School District	471,492
Lynchburg-Clay Local School District	208,222
Paint Valley Local School District	448,876
Pickaway-Ross Joint Vocational School District	132,427
Ross-Pike Educational Service Center	333,409
Southeastern Local School District	299,893
Teays Valley Local School District	698,118
Union Scioto Local School District	824,380
Westfall Local School District	(79,029)
Zane Trace Local School District	<u>(119,036)</u>
<b>Total</b>	<b><u>\$4,192,666</u></b>

**6. 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 Westfall Local School District (the Fiscal Agent) as its fiscal agent. The financial activity for the Consortium is reflected in an agency fund of the Fiscal Agent.

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

School Employees Insurance Consortium  
Ross County  
19463 Pherson Pike  
Williamsport, Ohio 43164

To the Board of Directors:

We have audited the financial statement of the School Employees Insurance Consortium, Ross County (the Consortium) as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 27, 2006, wherein we noted the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Consortium's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Consortium's management dated November 27, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Consortium's management dated November 27, 2006, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, Board of Directors and the Auditor of State. It is not intended for anyone other than these specified parties.

*Wilson, Shannon & Snow, Inc.*

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
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November 27, 2006





**Auditor of State  
Betty Montgomery**

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**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 16, 2007**