School Employees Insurance Consortium
Ross County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

January 15, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

Keith Faber

This Page is Intentionally Left Blank.

Dave Yost · Auditor of State

Board of Directors
Ross County School Employees Insurance Consortium
475 Western Ave, Suite E
Chillicothe, OH 45601

We have reviewed the *Independent Auditor's Report* of the Ross County School Employees Insurance Consortium, Ross County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 Ross County School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

January 2, 2019

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

This page intentionally left blank.

School Employees Insurance Consortium
Ross County, Ohio

Table of Contents

This page intentionally left blank.

Rea & associates a brighter way

December 5, 2018

To the Board of Directors
School Employees Insurance Consortium
Ross County, Ohio
475 Western Ave. Ste. E
Chillicothe, Ohio 45601

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements of the School Employees Insurance Consortium, Ross County, Ohio (the Consortium), as of and for the year ended June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the Consortium prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* 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 Cooperative as of June 30, 2018, and the respective changes in financial position or cash flows thereof for the year then ended.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, 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.

Rea & Associates, Inc.

Dublin, Ohio

School Employees Insurance Consortium
Ross County, Ohio

Statement of Cash Receipts, Disbursements, and Change in Cash Balance
For the Fiscal Year Ended June 30, 2018

Operating cash receipts:	
Charges for Services	$ 12,433,751
Rebates	526,304
Stop Loss Reimbursements	622,668
Other Revenue	91,553
Total operating cash receipts	13,674,276
Operating cash disbursements:	
Claims	12,472,373
Stop Loss Insurance	604,171
Third Party Administrative	303,374
Purchased Services	92,785
Total operating cash disbursements	13,472,703
Excess of Operating Cash Receipts over Cash Disbursements	201,573
Non-operating cash receipts:	
Earnings on Investments	29,296
Change in Cash Balance	230,869
Cash Balance, July 1, 2017	2,917,678
Cash Balance, June 30, 2018	$ 3,148,547

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

The School Employees Insurance Consortium, Ross County, (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 have been appointed by their respective school district. The representatives for the schools are usually the Superintendent. At June 30, 2018, four school districts, one educational service center and one career & technical center were actively participating in the Consortium.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the Consortium has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

A. Basis of Accounting

The Consortium's financial statements are prepared using the regulatory basis of accounting. Receipts are recorded in the Consortium's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this regulatory basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Consortium 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 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.

B. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Money market funds and federal agency securities are valued at cost.

During fiscal year 2018, the Consortium's investments consisted of Money Market Funds, Federal National Mortgage Association notes, U.S. Treasury Bills, Certificates of Deposit, and STAR Ohio.

C. 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.

D. 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 from member school district employees and their covered dependents.

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Consortium into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Consortium treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Consortium's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Board authorizes the Fiscal Agent to make investments of available monies from the funds of the Consortium in securities authorized by Ohio State laws. Investments shall be made that reflect the cash flow needs of the fund type being invested. The investments shall include:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest thereon but does not include stripped principal or interest obligations of such obligations;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;

3. Interim deposits in Board approved depositories;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section or repurchase agreements secured by such obligations, provided such investments are made only through banks and savings and loan institutions authorized by ORC 135.03;

6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibite The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Consortium, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Consortium cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Consortium will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Consortium's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Consortium's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Cash on Hand: At year end, the Consortium had no undeposited cash on hand.

Investments: Investments are reported at cost value. As of June 30, 2018, the Consortium had the following investments:

Rating	Investment	Cost Amount	Investment Maturities in Months 0 - 12	13-36	Over 36	% Total
AA+	Federal National Mortgage Association	$ 844,977	$0	$ 669,977	$ 175,000	33.6%
AAAm	US Treasury Bill	406,310	406,310	0	0	16.2%
N/A	Negotiable Certificate of Deposit	200,000	200,000	0	0	8.0%
AAAm	STAR Ohio	1,060,250	1,060,250	0	0	42.2%
		$ 2,511,537	$ 1,666,560	$ 669,977	$ 175,000	100.0%

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Consortium's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Consortium.

Credit Risk: The Consortium's investments at June 30, 2018 are rated as shown above by Standard & Poor's. Federal money markets are exempt from ratings since they are explicitly guaranteed by a U.S. Government Agency. The Consortium's policy on Credit Risk allows only for those investments as stated within the Ohio Revised Code. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days.

Concentration of Credit Risk: The Consortium places no limit on the amount the Consortium may invest in any one issuer. The Consortium's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

NOTE 4 – RISK MANAGEMENT

A. Medical and Prescription Benefits

The Consortium contracts with a third party administrator, Medical Mutual of Ohio, 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 reinsurance agreements (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 Standard 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.

A comparison of the Consortium's cash and investments to the actuarially-measured liability as of June 30 follows:

	June 30, 2018	June 30, 2017
Cash and Investments	$ 3,148,520	$ 2,917,678
Actuarial liabilities	1,521,000	1,320,700

D. Member-District Withdrawal

Member school districts may withdrawal 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 amounts of money in the Consortium reserves are adequate, the Board of Directors shall authorize payment to the withdrawing Member as follows:

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; 3) If a Member leaves more than ten years from the date it joined the Consortium, the Consortium hall 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.

NOTE 5 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Consortium to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.35, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Consortium does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

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

December 5, 2018

To the Board of Directors
School Employees Insurance Consortium
Ross County, Ohio
475 Western Ave. Ste. E
Chillicothe, Ohio 45601

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 School Employees Insurance Consortium, Ross County, Ohio (the Consortium), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018, wherein we issued an adverse opinion on the Consortium's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, where applicable, in accordance with 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 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 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

Consortium's Response to the Finding

The Consortium's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Consortium's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 report is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

School Employees Insurance Consortium
Ross County, Ohio
Schedule of Findings
June 30, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number: 2018-001 – **Material Noncompliance**

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year within 60 days following the end of their fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the Consortium to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The Consortium prepared its financial statements in accordance with the regulatory basis of accounting. This presentation differs from GAAP. There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the Consortium being fined or other administrative remedies.

Condition: The Consortium did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B) and the financial statements were not submitted within the required time frame.

Cause: For fiscal year 2018, the Consortium prepared its financial statements in accordance with standards established by the Auditor of State; however, the Consortium was required to prepare its annual report in accordance with generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the Consortium prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code and file within the required time frame.

Management's Response: The Consortium does not intend to develop a Corrective Action Plan or to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP. Management will ensure the financial statements are filed with the Auditor of State within the required time frame.

School Employees Insurance Consortium
Ross County, Ohio

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Noncompliance with ORC 117.38 and 117-2-03(B)	Not Corrected	There is no intention of the Consortium to report the financial statements in accordance with generally accepted accounting principles (GAAP) due to the cost saving benefits of reporting on a regulatory basis.

OHIO AUDITOR OF STATE
KEITH FABER

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 15, 2019