

# AUDIT REPORT

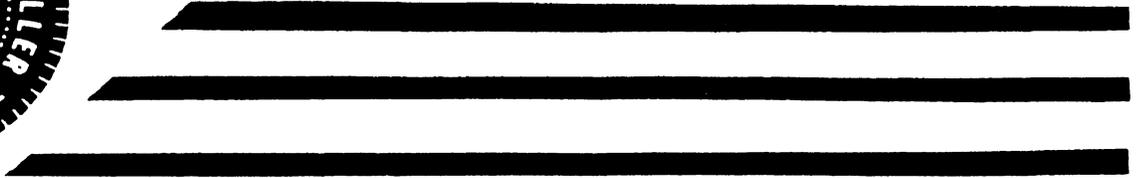
Teacher Group Insurance Fund

For the Year Ended  
June 30, 2007



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

September 4, 2008

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable Dave Goetz, Chairman  
Local Education Insurance Committee  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Teacher Group Insurance Fund for the year ended June 30, 2007. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ajm  
07/091

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Teacher Group Insurance Fund**  
For the Year Ended June 30, 2007

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## **AUDIT OBJECTIVES**

The objectives of the audit were to consider the fund's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## **AUDIT FINDINGS**

The audit report contains no findings.

## **OPINION ON THE FINANCIAL STATEMENTS**

The opinion on the financial statements is unqualified.

**Audit Report**  
**Teacher Group Insurance Fund**  
**For the Year Ended June 30, 2007**

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# **Teacher Group Insurance Fund For the Year Ended June 30, 2007**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Teacher Group Insurance Fund. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The Local Education Insurance Committee was created in 1986 by an act of the General Assembly, codified as Title 8, Chapter 27, Section 301, *Tennessee Code Annotated*. The purpose of the committee is to provide access to health insurance coverage to teachers in political subdivisions of the State of Tennessee. The Teacher Group Insurance Fund currently accounts and reports for revenues and expenses related to health insurance of current teachers in political subdivisions of the State of Tennessee who have elected coverage under a group medical plan similar to that offered to state employees. Prior to July 1, 2006, the fund accounted for both current and retired teachers.

### **ORGANIZATION**

The Local Education Insurance Committee oversees the administration of the Teacher Group Insurance Fund. The insurance committee is composed of the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, a representative from the Department of Education, the Commissioner of Commerce and Insurance, a representative of local school boards selected by the Tennessee School Boards Association, and three teachers elected by the Tennessee Education Association.

The Department of Finance and Administration, Division of Insurance Administration, is responsible for processing all payments and cash receipts of the fund through the state's accounting systems.

BlueCross BlueShield of Tennessee, Magellan Health Services, United Behavioral Healthcare, John Deere Health, and Cigna Healthcare are the contractors for the self-insured programs. These contractors process all participant claims, make all claim payments, provide access to a preferred provider organization, and carry out all utilization management functions.

An organization chart of the fund's administration is on the following page.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2006, through June 30, 2007, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June 30, 2006. The Teacher Group Insurance Fund forms an integral part of state government and as such has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 56 of the State of Tennessee Accounting and Reporting System (allotment code 317.86).

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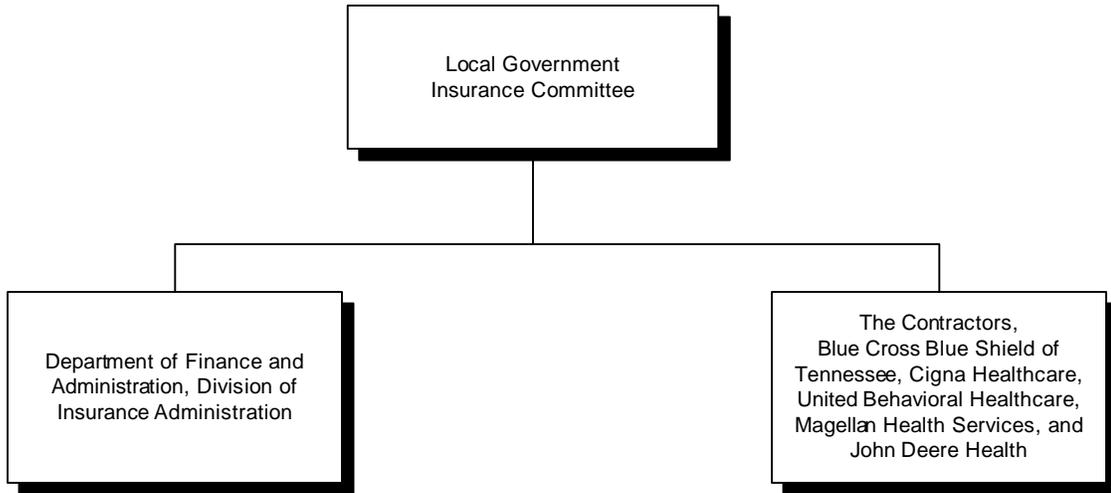
## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the fund's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Local Government Group Insurance Fund  
Administration  
Organization Chart**



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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **OBSERVATIONS AND COMMENTS**

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

## **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the Teacher Group Insurance Fund's financial statements for the year ended June 30, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Teacher Group Insurance Fund's financial statements.



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

September 4, 2008

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Teacher Group Insurance Fund, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 4, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

As discussed in Note 5 to the financial statements, the state has implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Teacher Group Insurance Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control over financial reporting.

The Honorable John G. Morgan  
September 4, 2008  
Page Two

Accordingly, we do not express an opinion on the effectiveness of the fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Teacher Group Insurance Fund's financial statements are free of material misstatement, we performed tests of the fund's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan  
September 4, 2008  
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Local Education Insurance Committee, the audit committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a flourish at the end.

Arthur A. Hayes, Jr., CPA  
Director

AAH/ajm



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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**Independent Auditor's Report**

September 4, 2008

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Teacher Group Insurance Fund, an enterprise fund of the State of Tennessee, as of June 30, 2007, and June 30, 2006, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration, approving certain state contracts, and participating in the negotiation and procurement of services for the state. The Comptroller of the Treasury also serves as a member of the Local Education Insurance Committee per state statute.

The Honorable John G. Morgan  
September 4, 2008  
Page Two

As discussed in Note 1, the financial statements present only the Teacher Group Insurance Fund, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2007, and June 30, 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Group Insurance Fund of the State of Tennessee, as of June 30, 2007, and June 30, 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, the state has implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The required supplementary information on page 19 is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of such limited procedures, we believe that the information described above is not in conformity with guidelines required by accounting principles generally accepted in the United States of America because information about estimated incurred claims and expenses and cumulative claims paid from January 1, 1998, through December 31, 1999, is not shown, and incurred claims and expenses were not reestimated.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2008, on our consideration of the fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters.

The Honorable John G. Morgan  
September 4, 2008  
Page Three

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA  
Director

AAH/ajm

**Teacher Group Insurance Fund**  
**Statements of Net Assets**  
**June 30, 2007, and June 30, 2006**

(Expressed in Thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Assets:</b>		
Current assets:		
Cash (Note 2)	\$ 142,198	\$ 115,291
Accounts receivable	<u>4,665</u>	<u>1,714</u>
Total assets	<u>146,863</u>	<u>117,005</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable and accruals	25,096	27,369
Unearned revenue	<u>561</u>	<u>1,849</u>
Total liabilities	<u>25,657</u>	<u>29,218</u>
<b>Net Assets:</b>		
Unrestricted	<u>121,206</u>	<u>87,787</u>
Total net assets	<u>\$ 121,206</u>	<u>\$ 87,787</u>

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

**Teacher Group Insurance Fund**  
**Statements of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Years Ended June 30, 2007, and June 30, 2006**

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(Expressed in Thousands)

	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006</u>
<b>Operating revenues:</b>		
Premiums	\$ <u>349,995</u>	\$ <u>356,033</u>
Total operating revenues	<u>349,995</u>	<u>356,033</u>
<b>Operating expenses:</b>		
Contractual services	15,906	20,258
Benefits	305,757	319,333
Other	<u>1,246</u>	<u>1,326</u>
Total operating expenses	<u>322,909</u>	<u>340,917</u>
Operating income	<u>27,086</u>	<u>15,116</u>
<b>Nonoperating revenues:</b>		
Interest income	<u>6,333</u>	<u>3,929</u>
Total nonoperating revenues	<u>6,333</u>	<u>3,929</u>
Income before transfer	33,419	19,045
Transfers from state general fund (Note 3)	<u>-</u>	<u>11,943</u>
Change in net assets	33,419	30,988
Net assets, July 1	<u>87,787</u>	<u>56,799</u>
Net assets, June 30	<u>\$ <u>121,206</u></u>	<u>\$ <u>87,787</u></u>

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

**Teacher Group Insurance Fund**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2007, and June 30, 2006**

(Expressed in Thousands)		
	Year Ended June 30, 2007	Year Ended June 30, 2006
<b>Cash flows from operating activities:</b>		
Receipts from fund members	\$ 345,756	\$ 357,052
Payments to insurance companies and health care providers	(323,939)	(335,986)
Payments for state services	(1,243)	(1,326)
Net cash from operating activities	<u>20,574</u>	<u>19,740</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers in from state general fund	-	11,943
Net cash from noncapital financing activities	<u>-</u>	<u>11,943</u>
<b>Cash flows from investing activities:</b>		
Interest received	6,333	3,929
Net cash from investing activities	<u>6,333</u>	<u>3,929</u>
Net increase in cash	26,907	35,612
Cash, July 1	<u>115,291</u>	<u>79,679</u>
Cash, June 30	<u>\$ 142,198</u>	<u>\$ 115,291</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>		
Operating income	\$ <u>27,086</u>	\$ <u>15,116</u>
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) in accounts receivable	(2,951)	(914)
Increase (decrease) in accounts payable	(2,273)	5,243
Increase (decrease) in unearned revenue	(1,288)	295
Total adjustments	<u>(6,512)</u>	<u>4,624</u>
Net cash from operating activities	<u>\$ 20,574</u>	<u>\$ 19,740</u>

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

**Teacher Group Insurance Fund  
Notes to the Financial Statements  
June 30, 2007, and June 30, 2006**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Teacher Group Insurance Fund is used to account for revenues received and claims paid on behalf of currently employed teachers in political subdivisions of the state who have elected coverage under a group medical plan similar to that offered to state employees. The fund has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

**B. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Teacher Group Insurance Fund follows all applicable GASB pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governmental entities also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Teacher Group Insurance Fund has elected not to follow subsequent private-sector guidance.

**C. Measurement Focus and Basis of Accounting**

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items in the Teacher Group Insurance Fund. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing insurance operations. Operating expenses include the cost of those services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Cash**

Cash is defined as cash on hand and demand deposits, such as the pooled investment fund.

**Teacher Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2007, and June 30, 2006**

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**NOTE 2. DEPOSITS**

The Teacher Group Insurance Fund had \$142,198,180 and \$115,291,446 in the State Treasurer's pooled investment fund at June 30, 2007, and June 30, 2006, respectively. The pooled investment fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and in securities lending agreements whereby securities may be loaned for a fee. The pooled investment fund's required risks disclosures are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Department of Finance and Administration, Division of Accounts, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298.

The amount at June 30, 2006, included retiree data that have been excluded from the June 30, 2007, amount as a result of a change in accounting principle (see Note 5 to the financial statements).

**NOTE 3. TRANSFER FROM STATE GENERAL FUND**

During the year ended June 30, 2006, the Teacher Group Insurance Fund received a transfer of \$11,943,068 from the State of Tennessee's general fund to support the operations of the fund.

**NOTE 4. RISK MANAGEMENT**

The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the state. In accordance with Section 8-27-302, *Tennessee Code Annotated*, all local education agencies are eligible to participate. Fund members at June 30, 2007, included 123 local education agencies and two education cooperatives, with 47,096 active teachers and support personnel in one of three health care options: preferred provider

**Teacher Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2007, and June 30, 2006**

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organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The state does not retain any risk for loss by this fund.

The Teacher Group Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait 24 months before rejoining the plan if the employer elects to withdraw from the plan. In the case of the individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2007, the Local Education Insurance Committee had established a reserve requirement, based on claims payments for the prior 12 months, of 8% for the PPO, POS, and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2007</u>	<u>2006</u>
Unpaid claims at the beginning of the year	\$ 27,355	\$ 22,125
Incurred claims:		
Provision for insured events of the current year	321,829	322,189

**Teacher Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2007, and June 30, 2006**

Increase (decrease) in provision for insured events of prior years	(3,045)	631
Total incurred claims expenses	318,784	322,820
Payments:		
Claims attributable to insured events of the current year	296,742	294,834
Claims attributable to insured events of prior years	24,310	22,756
Total payments	321,052	317,590
Total unpaid claims at the end of the year	\$ 25,087	\$ 27,355

The amounts for the year ended June 30, 2006, included retiree data that is excluded from the amounts for the year ended June 30, 2007, as a result of a change in accounting principle (see Note 5 to the financial statements).

**NOTE 5. ACCOUNTING CHANGES**

The state has implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement requires accounting and financial reporting for postretirement benefits provided to employees similarly to accounting for pension benefits. The statement provides specific guidance for plans that are held as trusts or equivalent arrangements and for plans that are not held in that manner. Plans held in irrevocable trusts are, at least to some extent, advance funding the OPEB obligation; in essence, actuarially determined contributions are being deposited in the trusts on a periodic basis. Plans that are not held in trusts are typically funded on a pay-as-you-go basis. The statement requires plans that maintain a pay-as-you-go funding basis to account and report for the retirees in an agency fund.

The impact of this statement on the Teacher Group Insurance Fund is considerable because both active and retired employees were commingled in the healthcare plans administered by the state. The local education agency plan (fund) administered by the state is continuing to fund the contributions on a pay-as-you-go basis. Therefore, for accounting and financial reporting purposes, retired employees were removed from the local education agency plan and reclassified into an agency fund. The effect of the change on income was not calculated and reported because there was only an average of 5,088 retirees in approximately 51,286 plan participants (10%) during the audit period.

**Teacher Group Insurance Fund  
Required Supplementary Information  
Ten-Year Claims Development Information**

The table below illustrates how the Teacher Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the fund for each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund, including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal and policy years.

	Fiscal and Policy Year Ended (Expressed in thousands of dollars)									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
(1) Required contribution and investment revenue earned (fiscal year)	109,968	123,419	126,918	166,476	203,669	250,090	287,814	323,053	359,962	*356,328
(2) Unallocated expenses (fiscal year)	5,193	6,685	13,261	15,961	19,380	21,271	23,168	23,771	21,584	*17,152
(3) Estimated incurred claims and expenses, end of policy year	**	**	141,005	185,219	210,650	248,618	263,345	296,509	*320,702	**
(4) Paid (cumulative) as of:										
End of policy year	**	**	124,084	162,993	189,585	223,756	238,934	268,863	*295,687	**
One year later	**	**	139,458	182,699	211,337	247,014	263,694	*296,441	**	
Two years later	**	**	139,349	182,569	211,053	246,969	*263,699	**		
Three years later	**	**	139,340	182,461	211,041	*246,917	**			
Four years later	**	**	139,366	182,454	*210,953	**				
Five years later	**	**	139,320	*182,446	**					
Six years later	**	**	*139,315	**						
Seven years later	**	**	**							
Eight years later	**	**								
Nine years later	**									

**Teacher Group Insurance Fund  
Required Supplementary Information  
Ten-Year Claims Development Information (Cont.)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
(5) Reestimated incurred claims and expenses:										
End of policy year	**	**	141,005	185,219	210,650	248,61	263,345	296,509	*320,702	**
One year later	**	**	139,401	182,581	211,199	247,11	263,738	*296,274	**	
Two years later	**	**	139,357	182,441	211,044	246,94	*263,670	**		
Three years later	**	**	139,361	182,455	210,981	*246,917	**			
Four years later	**	**	139,365	182,449	*210,953	**				
Five years later	**	**	139,315	*182,446	**					
Six years later	**	**	*139,313	**						
Seven years later	**	**	**							
Eight years later	**	**								
Nine years later	**									
(6) Increase (decrease) in estimated incurred claims and expenses from end of policy year	**	**	(1,692)	(2,773)	303	(1,701)	325	(235)	0	**

\* Amounts only represent active employees (see Note 5 to the financial statements)

\*\* Data not available