



**MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
MAHONING COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**



**Auditor of State  
Betty Montgomery**



**MAHONING COUNTY SCHOOL EMPLOYEES  
INSURANCE CONSORTIUM  
MAHONING COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Mahoning County School Employees Insurance Consortium  
Mahoning County  
225 Idaho Road  
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the year ended June 30, 2003. 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 *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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Consortium prepares its financial statement on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of the Consortium as of June 30, 2003, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003 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 grants. 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.

Mahoning County School Employees  
Insurance Consortium  
Mahoning County  
Independent Accountants' Report  
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This report is intended solely for the information and use of management, Members of the Assembly, Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 20, 2003

**MAHONING COUNTY SCHOOL EMPLOYEES  
INSURANCE CONSORTIUM**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCE - INSURANCE CONSORTIUM FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

**Cash Receipts:**

Contributions from Members	\$28,309,428
Stop Loss Refund	769,488
Miscellaneous Receipts	221
Earnings on Investments	23,145
	<hr/>
Total Cash Receipts	29,102,282

**Cash Disbursements:**

Claims Payments	25,299,627
Administration Fees	447,596
Stop Loss Insurance Payments	792,231
Miscellaneous Cash Disbursements	128,511
	<hr/>
Total Cash Disbursements	26,667,965

Excess of Cash Receipts Over/ (Under) Cash Disbursements	<hr/> 2,434,317
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Fund Cash Balance - July 1, 2002	<hr/> 473,924
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<b>Fund Cash Balance - June 30, 2003</b>	<b><u><u>\$2,908,241</u></u></b>
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*The notes to the financial statements are an integral part of this statement.*

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**MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Mahoning County School Employees Insurance Consortium, Mahoning County, (the Consortium) is a school district insurance consortium established pursuant to Ohio Revised Code Chapter 167. The legislative body of the Consortium is an Assembly consisting of the Superintendents, or a Superintendent's designee, from each member school district (participant). Officers of the Assembly are elected from the membership for a one year term. The Assembly appoints a Board of Directors, which acts as the managerial body of the Consortium, consisting of the superintendent from the Mahoning County Educational Service Center, the Superintendent from the Austintown Local School District that serves as the Consortium's fiscal agent, and three other members of the Assembly who are elected from the membership for a two year term. The Consortium administers medical, prescription and dental benefit plans for employees of the participating school systems and their eligible dependents.

Contributions to the Insurance Consortium are received monthly from the participant and their employees based upon amounts determined by independent insurance consultants. At June 30, 2003, a third-party insured the Consortium for claims in excess of \$135,000 per participant and \$25,169,865 in the aggregate, annually.

Besides the standard monthly contributions, the Insurance Consortium may extend an assessment to each participant based on a three-year window calculation determined by the independent insurance consultant. The calculation is based on the ratio of total expense to total income for each school during the previous three years ended June 30. The insurance consultant separately reviews each participant's medical, prescription, and dental balances for potential assessments. Conversely, a participant may be eligible for a one month or two month waiver of its monthly contributions based on the above calculation. A participant may pay assessments in advance if it believes a shortage will exist at the end of the period in periodic payments or a lump sum after the total assessment is determined.

Although a participant may withdraw from the Consortium or any particular benefits program, no participant withdrew from the Consortium during the period July 1, 2002 through June 30, 2003.

All administrative costs and expenses incurred for the maintenance of the Consortium have been paid by the participants through June 30, 2003.

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

**B. Basis of Accounting**

The Consortium's financial statement follows the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Consortium's statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. 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.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The carrying amount of the Consortium's cash and investments at June 30, 2003 was as follows:

	<u>2003</u>
Demand deposits	(\$890,624)
Repurchase agreement (Sweep Account)	3,798,865
Total deposits and investments	<u>\$2,908,241</u>

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

**Investments:** Repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent, in the Consortium's name.

**3. UNFUNDED CLAIMS**

The Consortium obtains an actuarial report that reflects a valuation that provides an estimate of runoff liability for incurred but not reported (IBNR) claims of the insurance program based on an analysis of historic claims data and generally accepted actuarial principles. The actuarial report for the period ended June 30, 2003 reflects estimated claims as of June 30, 2003 at \$3,679,676. Reported reserve funds available to pay IBNR claims as of that date are \$2,927,228. Thus according to the actuarial report estimated IBNR claims as of June 30, 2003 were unfunded by \$752,448.

The agreement establishing the Consortium provides that the member school districts (participants) assume the financial risk of the Insurance Consortium to ensure the stability of the Consortium's financial position. The agreement also provides that the participants' contributions to the Consortium, and the disbursements made by the Consortium should make an adjustment to the amount the participants contribute. Pursuant to this funding arrangement, the Insurance Consortium Assembly passed a resolution June 21, 2001, requiring any participant, whose three-year window balance at June 30, 2002 was in excess of its three-year window threshold, to make an additional (thirteenth) payment for 2002. Also, pursuant to this funding arrangement and to meet the above stated IBNR claims, the Insurance Consortium Assembly passed a resolution, effective May 21, 2003, that increases the participants' monthly contributions to the Consortium for medical coverage by 15%, for prescription coverage by 15%, and for dental coverage by 5%. The aggregate amount of these increases is expected to generate approximately \$2,230,000 to meet the above stated IBNR claims.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Mahoning County School Employees Insurance Consortium  
Mahoning County  
225 Idaho Road  
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the accompanying financial statement of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the Consortium's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Mahoning County School Employees Insurance Consortium  
Mahoning County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
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This report is intended solely for the information and use of management, Members of the Assembly, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 20, 2003



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM**

**MAHONING 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  
DECEMBER 30, 2003**