

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

MAHONING COUNTY

JULY 1, 2008 TO JUNE 30, 2009

HILL, BARTH & KING, LLC



Mary Taylor, CPA

Auditor of State

Board of Directors
Mahoning County School Employees Insurance Consortium
P.O. Box 549
Middletown, Ohio 44442

We have reviewed the *Independent Auditors' Report* of the Mahoning County School Employees Insurance Consortium, Mahoning County, prepared by Hill, Barth & King LLC, for the audit period July 1, 2008 through June 30, 2009. 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 Mahoning County School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 16, 2010

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FINANCIAL STATEMENTS
MAHONING COUNTY SCHOOL EMPLOYEES
INSURANCE CONSORTIUM

June 30, 2009 and 2008

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7680 Market Street
Boardman, Ohio 44512
(330) 758-4512 PHONE
(330) 758-0357 FAX
www.hbkcpa.com

February 24, 2010

Board of Directors
Mahoning County School Employees Insurance Consortium
New Middletown, Ohio

Independent Auditors' Report

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of the Consortium'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 audits 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.

As discussed in Note A, the Consortium has prepared these financial statements 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.

GAAP requires the Consortium to reformat its financial statement presentation and make other changes. Instead of the combined funds the accompanying financial statements present for 2009 and 2008, the revisions require presenting entity wide statements and also to present its larger funds separately. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the 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 statements. 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 statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2009 and 2008, or its changes in fund balances for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance of the Consortium as of June 30, 2009 and 2008 and its cash receipts and disbursements for the years then ended on the accounting basis described in Note A.

The Consortium has not presented the Management's Discussion and Analysis, that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2010 on our consideration of the Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 important for assessing the results of our audit.



Certified Public Accountants

STATEMENTS OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

General Fund

Years ended June 30, 2009 and 2008

	2009	2008
RECEIPTS		
Receipts from member districts	\$ 13,448,871	\$ 15,151,869
Receipts from stop-loss refunds	288,084	263,149
Interest income	97,227	478,745
TOTAL RECEIPTS	13,834,182	15,893,763
DISBURSEMENTS		
Payments to third-party administrator:		
Claims payments	14,645,974	14,379,114
Administrative fees	350,884	295,352
Stop-loss insurance premiums	756,952	688,303
Access fees	418,550	446,503
Miscellaneous other costs	24,000	18,000
Consulting fees	50,880	50,880
Fiscal agent fee	5,000	5,000
Audit fees	4,500	7,742
Miscellaneous other costs	33,337	9,281
TOTAL DISBURSMENTS	16,290,077	15,900,175
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS	(2,455,895)	(6,412)
Beginning fund cash balance	12,660,752	12,667,164
Ending fund cash balance	\$ 10,204,857	\$ 12,660,752

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity:

The Mahoning County School Employees Insurance Consortium, Mahoning County, Ohio (the Consortium) is a school district insurance consortium established pursuant to the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Ohio Revised Code Chapter 167. The Consortium is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provision and administration of health care benefits for member employees and covered dependents in accordance with the Consortium's agreement (agreement).

The Assembly is the legislative body of the Consortium consisting of the Superintendents, or a Superintendent's designee, from each member school district (member). The Assembly appoints a board of directors, which acts as the managerial body of the Consortium. The board of directors is composed of two permanent members consisting of the Superintendent from the Mahoning County Educational Service Center or his designee and the Superintendent of the Fiscal Agent or his designee and three members elected by the Assembly for a two year term. Officers of the board of directors are appointed by the board members for a one year term and preside over all meetings of the board and Assembly.

Members can choose from medical, prescription drug, dental and vision coverage. There are currently twelve members of the Consortium of which all members participate in medical coverage, eleven participate in prescription drug coverage, eight participate in dental coverage and two participate in vision coverage at June 30, 2009.

Any public school district or educational service center organized under the law of the State of Ohio may apply for inclusion in the Consortium. The applicant district shall be admitted to the Consortium as a member if at least two-thirds of the Assembly members approve the applicant and the applicant agrees to remit an initial monetary assessment for Consortium Costs in an amount determined by the Assembly.

Members may withdraw from the Consortium or from any particular benefits program with notification to the fiscal agent on or before October 15 of the year preceding the fiscal year in which the participating district will withdraw. No members withdrew from the Consortium during the years ended June 30, 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting:

The Consortium's financial statements follow 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, disbursements are recognized when paid rather than when a liability is incurred and financial statements include adequate disclosure of material matters. The financial statements present all activities for which the Consortium is financially accountable.

Fund Accounting:

The Consortium maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Consortium maintains a general fund to account for its expendable financial resources and related current expenses.

Budgetary Process:

The members of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process and does not follow the budgetary process.

Receipts of the Entity:

Members contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Assembly. The premiums are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Each member assumes the risks of all other members, to the extent of contributions by that member into the Consortium's fund. In accordance with the agreement the Assembly has the authority to approve a premium holiday if they determine that surplus funds in excess of one hundred and fifty percent of the average monthly claims for the most recent twelve-month period are available. There were no premium holidays recognized during the year ended June 30, 2009 and 2008.

The Consortium tracks member's contributions made to the common fund and the disbursements made from the common fund for members for each type of coverage. This information is used to calculate whether the member has a positive or negative balance in the Consortium at the end of a three-year window calculation period which the most recent period ended on June 30, 2009. The Consortium contracts with independent insurance consultants who separately review each member's medical, prescription drug and dental balances for potential assessments or premium holidays.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receipts of the Entity (Continued):

Assessments for members are calculated at the lower of fifty percent of the negative balance or six monthly premiums calculated at the average premium rate in effect for the most recent twelve month period. Conversely, premium holidays of one or two months are awarded to members with positive balances whose premium payments for the three year period exceeded 85% or 75%, respectively, of the claims and other fixed costs paid by the Consortium for the member. A member 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. See Note D for information on the assessments and premium holidays for the year ended June 30, 2009.

The Consortium entered into a contract with a third-party to insure the Consortium for specific and aggregate stop-loss claims in excess of specified amounts discussed in Note D.

Income Taxes:

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This statement is effective for annual, fiscal years beginning after December 15, 2008, for certain non public enterprises and accordingly, the Consortium has deferred its adoption. While the Consortium has not completely assessed its uncertain tax positions, it currently estimates that the impact of adopting FIN 48 will not have a material effect on the accompanying financial statements.

Third Party Administrators:

On October 1, 2005, the Consortium contracted with a third-party administrator, Medical Mutual, to process and pay health benefit claims incurred by its members. The Fiscal Officer approves monthly payments to the third-party administrator for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Consortium members.

Deposits with Financial Institutions:

To improve cash management, cash received by the Consortium is pooled in one central checking and two savings accounts. Monies from all members are maintained in this pool.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events:

Management evaluated all activity of the Consortium through February 24, 2010 and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

The Consortium maintains its cash in demand deposits at one bank. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$250,000 of the Consortium's bank balance of \$10,204,857 was covered by the Federal Deposit Insurance Corporation, while \$9,954,857 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Consortium's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in a single financial institution collateral pool at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Consortium.

NOTE C - RELATED PARTY TRANSACTIONS

As permitted by the Consortium's agreement, the Assembly is authorized to approve the payment of a management fee to the member appointed as the fiscal agent for the Consortium. The fiscal agent fee of \$5,000 for the years ended June 30, 2009 and 2008 was paid to Springfield Local School District.

NOTE D - RISK MANAGEMENT

A third-party insured the Consortium for specific stop-loss claims in excess of \$175,000 per covered person for the years ended June 30, 2009 and 2008. The annual maximum specific stop-loss claims per covered person for 2009 and 2008 were \$1,000,000. A third-party also insured the Consortium for aggregate stop loss claims in excess of \$17,267,191 in 2009 and \$18,665,230 in 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2009 and 2008

NOTE D - RISK MANAGEMENT (CONTINUED)

Besides the standard monthly contributions, the Consortium agreement provides for an additional assessment and/or premium holidays for each member based on a three-year window calculation as discussed in Note A. The total assessments for the three-year window ended June 30, 2008 amounted to \$742,474 less the premium holidays awarded of \$590,770 resulted in a net assessment of \$151,704. The assessments were billed to the member districts in September 2008 and were subsequently collected by December 31, 2008. The premium holidays were taken in October and November of 2008.

Member school districts that withdraw from the Consortium are obligated for payment of any negative balance in their account. The remaining claims of any of the withdrawing districts eligible members and dependents that have not been processed and paid by the Consortium at or prior to the withdrawal date are the responsibility of each individual school upon withdrawal from the Consortium.

NOTE E - CLAIMS LIABILITY

The Consortium receives an annual actuarial report that estimates an amount for the runoff liability for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the years ended June 30, 2009 and 2008. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cash	\$ 10,204,857	\$ 12,660,752
IBNR actuarial liability	<u>(1,546,694)</u>	<u>(1,876,005)</u>
Excess funds	<u>\$ 8,658,163</u>	<u>\$ 10,784,747</u>

The Consortium also incurred claims that have been processed but not paid as of June 30, 2009 and 2008 that amounted to \$88,586 and \$73,449, respectively. These claims are not included in the IBNR claim liability at June 30, 2009 and 2008.



7680 Market Street
Boardman, Ohio 44512
(330) 758-4512 PHONE
(330) 758-0357 FAX
www.hbkcpa.com

February 24, 2010

Board of Directors
Mahoning County School Employees Insurance Consortium
New Middletown, Ohio

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*

We have audited the financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the year ended June 30, 2009, and have issued our report thereon dated February 24, 2010, wherein we noted the Consortium prepared its financial statements using the accounting practices the Auditor of State established 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Consortium'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 Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

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 organization's internal control.

Our consideration of 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 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 Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

This report is intended solely for the information and use of management, members, board of directors and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Barth & King LLC
Certified Public Accountants

STATUS OF PRIOR YEAR AUDIT CITATIONS AND RECOMMENDATIONS
MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

Years ended June 30, 2009 and 2008

The prior audit report for the year ended June 30, 2008 did not include material citations or recommendations.



Mary Taylor, CPA
Auditor of State

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
MAY 6, 2010**