

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014***

**LORI SIMIONE, TREASURER**





# Dave Yost • Auditor of State

Members of the Assembly and Insurance Committee  
Trumbull County School Employees Insurance Consortium  
6000 Youngstown-Warren Road  
Niles, Ohio 44446

We have reviewed the *Independent Auditor's Report* of the Trumbull County School Employees Insurance Consortium, Trumbull County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Trumbull County School Employees Insurance Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 1, 2014

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**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Trumbull County School Employees Insurance Consortium  
6000 Youngstown-Warren Road  
Niles, Ohio 44446-4603

To the Members of the Assembly and Insurance Committee:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Trumbull County School Employees Insurance Consortium, Trumbull County, Ohio, as of and for the fiscal year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Trumbull County School Employees Insurance Consortium's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 Trumbull County School Employees Insurance 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 Trumbull County School Employees Insurance 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Trumbull County School Employees Insurance Consortium, Trumbull County, Ohio, as of June 30, 2014, and the respective changes in modified cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

***Supplemental and Other Information***

We audited to opine on the Trumbull County School Employees Insurance Consortium's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* (pages 3 - 6) includes tables of net cash position and change in net cash position. These tables and the ten year loss development information (pages 15 - 16) provide additional analysis and are not a required part of the basic financial statements.

These tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in *Management's Discussion & Analysis*, or to the ten-year loss development information and we express no opinion or any other assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014, on our consideration of the Trumbull County School Employees Insurance 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 Trumbull County School Employees Insurance Consortium's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
September 19, 2014

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The management's discussion and analysis of the Trumbull County School Employees Insurance Consortium's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year 2014, within the limitations of the Consortium's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the notes to the basic financial statements and modified cash basis financial statements to enhance their understanding of the Consortium's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2014 are as follows:

- In total, net cash position was \$11,185,280 at June 30, 2014, which represents an 30.95% increase from 2013.
- The Consortium had operating cash receipts of \$21,047,515 and operating cash disbursements of \$18,430,771 for the fiscal year 2014. The Consortium also received \$27,166 in non-operating interest income cash receipts during the year. The total change in net cash position for the year was an increase of \$2,643,910.

**Using these Basic Financial Statements**

This modified cash basis annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Consortium's modified cash basis of accounting. This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *Statement of Net Position - Modified Cash Basis* and the *Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position - Modified Cash Basis* provide information about the activities of the Consortium.

**Reporting the Consortium Financial Activities**

***Statement of Net Position - Modified Cash Basis and Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position - Modified Cash Basis***

These documents look at all financial transactions and ask the question, "How did we do financially during 2014?" The *Statement of Net Position - Modified Cash Basis* and the *Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position - Modified Cash Basis* - answers this question.

These statements include *only net cash position* using the *modified cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the Consortium's net cash position and changes in that cash position on a modified cash basis. This change in net cash position is important because it tells the reader that, for the Consortium as a whole, the modified cash basis financial position of the Consortium has improved or diminished.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these modified cash basis financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.



**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The table below provides a summary of the Consortium's net cash position at June 30, 2014 and 2013.

	2014	2013
<b>Net Cash Position</b>		
<b><u>Assets</u></b>		
Equity in pooled cash and investments	\$ 11,185,280	\$ 8,541,370
Total assets	11,185,280	8,541,370
<b><u>Net Cash Position</u></b>		
Unrestricted	11,185,280	8,541,370
Total net cash position	\$ 11,185,280	\$ 8,541,370

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014 and June 30, 2013, the Consortium's net cash position totaled \$11,185,280 and \$8,541,370, respectively.

The table below shows the changes in net cash position for fiscal years 2014 and 2013.

	2014	2013
<b>Change in Net Cash Position</b>		
<b><u>Operating cash receipts:</u></b>		
Contributions from members	\$ 21,014,699	\$ 21,314,036
Stop loss insurance reimbursements	32,816	2,006,379
Total operating cash receipts	21,047,515	23,320,415
<b><u>Operating cash disbursements:</u></b>		
Claims	17,143,365	21,264,999
Premiums	1,218,152	1,182,441
Administrative fees	52,754	97,190
Professional fees	16,349	8,619
Miscellaneous	151	209
Total operating cash disbursements	18,430,771	22,553,458
<b><u>Non-operating cash receipts:</u></b>		
Interest income	27,166	34,864
Total non-operating cash receipts	27,166	34,864
Change in net cash position	2,643,910	801,821
Net cash position at beginning of year	8,541,370	7,739,549
Net cash position at end of year	\$ 11,185,280	\$ 8,541,370

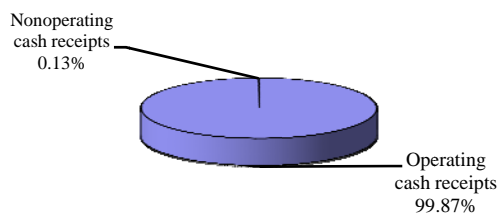
**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

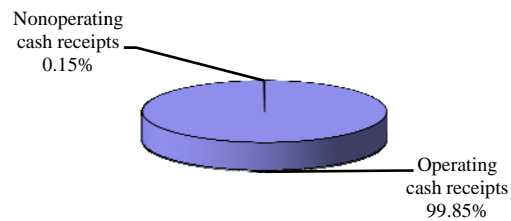
For fiscal year 2014, operating cash receipts decreased \$2,272,900 or 9.75% and operating cash disbursements decreased \$4,122,687 or 18.28%, respectively, from fiscal year 2013. The decrease in operating cash receipts is due mainly to less stop loss insurance reimbursements received during fiscal year 2014. The stop loss reimbursements were the result of claims that exceeded the Consortium's stop loss deductible of \$310,000 during fiscal year 2014. The decrease in operating cash disbursements is the result of a significant decrease in claims submitted by members. Interest income decreased 22.08% due to lower than expected interest rates earned on investments.

The charts below illustrate the cash receipts and disbursements for the Consortium for fiscal years 2014 and 2013.

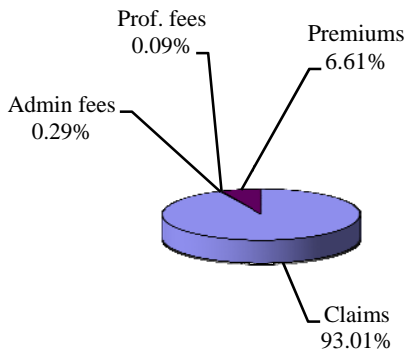
**2014 Cash Receipts**



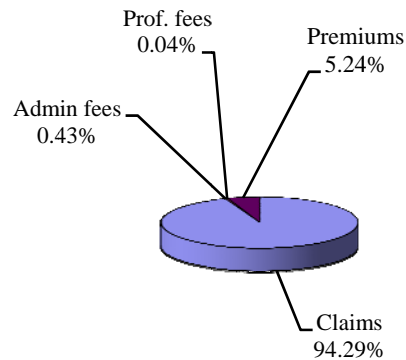
**2013 Cash Receipts**



**2014 Operating Cash Disbursements**



**2013 Operating Cash Disbursements**



**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Current Financial Related Activities**

The Consortium is a not-for-profit insurance consortium owned and operated by sixteen school districts in Trumbull County, Ohio. The Consortium's main source of operating cash receipts is premiums paid by the member school districts. The Consortium also receives interest receipts through investments.

The Consortium is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The Consortium requires its members to participate in the medical/prescription insurance program, with individual district choice as to participation in the dental, vision, and life programs. The Consortium Board and its consultant, CBIZ, Inc., continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for Consortium members.

Establishing premiums that satisfy all claims, administration fees, and other disbursements of the Consortium, in addition to enhancing the net cash position is important for the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium Board is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the participating districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 1,700 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Board is faced with the unenviable task of attempting to balance a quality benefits offering within the financial constraints facing Ohio's public school districts. This is much the same as the dilemma facing American businesses today, and is complicated by the fact that each member school district in the Consortium must collectively bargain benefit levels with the respective employee unions. The challenge is set before the Consortium and its Board, and the future looks better from the collective, as opposed to individual, view of the sixteen participating districts.

**Contacting the Consortium's Financial Management**

This financial report is designed to provide our member districts, citizens and other interested parties with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Lori Simione, Treasurer, Trumbull County School Employees Insurance Consortium, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

**BASIC  
FINANCIAL STATEMENTS**

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
JUNE 30, 2014

<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	<u>\$ 11,185,280</u>
Total assets. . . . .	<u>\$ 11,185,280</u>
 <b>Net Cash Position:</b>	
Unrestricted. . . . .	<u>\$ 11,185,280</u>
Total net cash position . . . . .	<u><u>\$ 11,185,280</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH POSITION - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<b>Operating cash receipts:</b>	
Contributions from members. . . . .	\$ 21,014,699
Stop loss insurance reimbursements . . . . .	32,816
Total operating cash receipts. . . . .	<u>21,047,515</u>
<b>Operating cash disbursements:</b>	
Claims . . . . .	17,143,365
Premiums . . . . .	1,218,152
Administrative fees. . . . .	52,754
Professional fees . . . . .	16,349
Miscellaneous . . . . .	151
Total operating cash disbursements . . . . .	<u>18,430,771</u>
Excess of operating cash receipts over operating cash disbursements . . . . .	<u>2,616,744</u>
<b>Non-operating cash receipts:</b>	
Interest income . . . . .	27,166
Total non-operating cash receipts. . . . .	<u>27,166</u>
Change in net cash position. . . . .	2,643,910
<b>Net cash position at beginning of year. . . . .</b>	<u>8,541,370</u>
<b>Net cash position at end of year . . . . .</b>	<u><u>\$ 11,185,280</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 1 - DESCRIPTION OF THE CONSORTIUM**

The Trumbull County School Employees Insurance Consortium, Trumbull County, (the "Consortium") is a Council of Governments established pursuant to Ohio Revised Code Chapter 167. The Council of Governments (the "Consortium") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Consortium is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Consortium's bylaws.

The Governing Body of the Consortium is an Assembly composed of the Superintendents of the members and any other representative of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2014, there were 16 participating members of the Consortium. The Insurance Committee (Executive Board) shall function as the advisory body to the Assembly. It shall consist of five representatives of the members, four of whom shall be appointed by the President of the Trumbull County Superintendent's Association, and the fifth of whom shall be the Superintendent of the Fiscal Agent. The Trumbull County Educational Service Center shall serve as the Consortium's fiscal agent and the Treasurer of the Consortium shall be the Treasurer of the Fiscal Agent. The Consortium administers medical, prescription, dental, and vision benefit plans for employees of the participating school systems and their eligible dependents.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on the modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**A. Basis of Presentation**

The Consortium's financial statements consist of a statement of net position - modified cash basis and statement of cash receipts, cash disbursements and changes in net cash position - modified cash basis.

**B. Basis of Accounting**

The Consortium's financial statements are prepared using the modified cash 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.



**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

As a result of the use of this modified cash 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 or 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 cash receipts are those receipts that are generated directly from the primary activity of the Consortium. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the Consortium. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

**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. At June 30, 2014, the Consortium's investments consisted of nonnegotiable certificates of deposit, Federal Home Loan Mortgage Corporation (FHLMC) bonds, Federal Home Loan Bank (FHLB) bonds, Federal Farm Credit bank (FFCB) bonds and Federal National Mortgage Association (FNMA) bonds which are valued at cost.

**D. Budgetary Process**

The Consortium is not required to follow the budgetary process by law, but incorporated in the bylaws that on or before November 30, a written estimate shall be submitted to the Assembly of the program costs for the ensuing fiscal year and the Members' shares of those program costs.

**E. Net Cash Position**

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Consortium had no restricted net cash position at fiscal year end.

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 Assembly has identified as not required for use within the current five 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 including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)**

Protection of the 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. 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.

**A. Deposits with Financial Institutions**

At June 30, 2014, the carrying amount of all Consortium deposits was \$7,437,011. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$6,687,011 of the Consortium's bank balance of \$7,437,011 was exposed to custodial risk as discussed below, while \$750,000 was covered by the FDIC.

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 single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of 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.

**B. Investments**

As of June 30, 2014, the Consortium had the following investments and maturities:

<u>Investment type</u>	<u>Cost</u>	<u>Investment Maturities</u>		
		<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 1,000,635	\$ -	\$ 501,135	\$ 499,500
FHLB	348,275	-	-	348,275
FFCB	1,399,629	900,064	-	499,565
FNMA	999,730	-	-	999,730
Total	<u>\$ 3,748,269</u>	<u>\$ 900,064</u>	<u>\$ 501,135</u>	<u>\$ 2,347,070</u>

The weighted average maturity of investments at June 30, 2014, is 2.56 years.

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Consortium's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The Consortium's investments in federal agency securities, were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Consortium's investment policy does not specifically address credit risk beyond requiring the Consortium to only invest in securities authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the 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. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Consortium's name. The Consortium has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The Consortium places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Consortium at June 30:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
FHLMC	\$ 1,000,635	26.70
FHLB	348,275	9.29
FFCB	1,399,629	37.34
FNMA	<u>999,730</u>	<u>26.67</u>
Total	<u>\$ 3,748,269</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investments to the Statement of Net Position - Modified Cash Basis**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,437,011
Investments	<u>3,748,269</u>
Total	<u>\$ 11,185,280</u>
 <u>Cash and investments per statement of net position - modified cash basis</u>	
Business-type activities	<u>\$ 11,185,280</u>
Total	<u>\$ 11,185,280</u>

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 4 - RISK MANAGEMENT**

The Consortium contracts with third party administrators, Medical Mutual of Ohio and CoreSource of Columbus, to process and pay health claims and vision claims respectively incurred by its members. Members pay monthly premiums to the Consortium based upon an annual estimate determined by the Executive Board. The Treasurer issues payments to the third party administrators for actual insurance claims processed, stop-loss premiums, and administrative charges.

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.

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.

The Consortium's cash and investments to the actuarially-measured liability as of June 30, 2014:

	<u>June 30, 2014</u>
Cash and Investments	\$11,185,280
Actuarial liabilities	1,944,100

**NOTE 5 - CONTRACTED SERVICES**

For fiscal year 2014, the Consortium contracts with CBIZ, Inc. to assist them with the annual renewals of its health and welfare plans. CBIZ, Inc. also helps the Consortium and its members with maintaining the current plan of benefits including design, claim adjudication, customer service, billing and compliance issues. In addition, they review alternative plan design and determine that claims are paid in accordance to specifications of the plan.

OTHER INFORMATION

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

**TEN-YEAR LOSS DEVELOPMENT INFORMATION**

The following table illustrates how the Consortium's cash receipts (including investment income) compared to related payments of claims and other cash disbursements made by the Consortium as of the end of each fiscal year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross received premiums and investment income.
- (2) This line shows non-claims related cash disbursements of the Consortium for each fiscal year including premiums, administrative fees, professional fees, and other miscellaneous cash disbursements.
- (3) This section shows the cumulative net amount of claims paid as of the end of the accident year.

The Consortium reports data on a modified cash basis. Premiums and investment income are recorded when received and unallocated cash disbursements and claims are recorded when paid by the Consortium. A claims liability is not recorded under the Consortium's modified cash basis of accounting.

Loss development information for each fiscal year end from June 30, 2005 through June 30, 2014 is presented in the schedule on page 16.

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM  
TRUMBULL COUNTY, OHIO**

TEN-YEAR LOSS DEVELOPMENT INFORMATION

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>1. Premiums and investment income</b>	\$ 16,050,584	\$ 15,764,977	\$ 19,332,703	\$ 20,634,788	\$ 17,471,661	\$ 19,208,474	\$ 18,777,044	\$ 20,844,321	\$ 21,348,900	\$ 21,041,865
<b>2. Unallocated cash disbursements</b>	1,586,709	1,337,599	1,135,748	1,094,530	1,042,657	1,100,196	1,141,555	1,214,232	1,288,459	1,287,406
<b>3. Paid, cumulative as of:</b>										
End of accident year	12,613,740	14,735,991	15,502,352	17,404,176	13,777,491	15,192,489	16,950,738	16,887,413	19,584,481	16,038,724
One year later	14,479,978	16,869,818	17,734,810	19,376,137	15,199,123	16,541,578	18,869,725	18,565,989	20,689,122	
Two years later	14,488,650	16,873,102	17,758,196	19,371,878	15,201,451	16,546,530	18,870,505	18,565,989		
Three years later	14,489,887	16,873,102	17,758,196	19,371,878	15,201,451	16,547,692	18,870,505			
Four years later	14,489,887	16,873,102	17,758,196	19,371,878	15,201,451	16,547,692				
Five years later	14,489,887	16,873,102	17,758,196	19,371,878	15,201,451					
Six years later	14,489,887	16,873,102	17,758,196	19,371,878						
Seven years later	14,489,887	16,873,102	17,758,196							
Eight years later	14,489,887	16,873,102								
Nine years later	14,489,887									



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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

Trumbull County School Employees Insurance Consortium  
6000 Youngstown-Warren Road  
Niles, Ohio 44446-4603

To the Members of the Assembly and Insurance Committee:

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 the Trumbull County School Employees Insurance Consortium as of and for the fiscal year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Trumbull County School Employees Insurance Consortium's basic financial statements and have issued our report thereon dated September 19, 2014, wherein we noted the Trumbull County School Employees Insurance Consortium uses a special purpose framework other than generally accepted accounting principles.

#### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Trumbull County School Employees Insurance 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 Trumbull County School Employees Insurance 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 Trumbull County School Employees Insurance 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.

Members of the Assembly and Insurance Committee  
Trumbull County School Employees Insurance Consortium

***Compliance and Other Matters***

As part of reasonably assuring whether the Trumbull County School Employees Insurance 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 Trumbull County School Employees Insurance Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Trumbull County School Employees Insurance Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
September 19, 2014

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# Dave Yost • Auditor of State

**TRUMBULL COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM**

**TRUMBULL 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  
OCTOBER 14, 2014**