



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

**REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2018**

OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
Mahoning County School Employee Insurance Consortium
PO Box 549
New Middletown, Ohio 44442

We have reviewed the *Independent Auditor's Report* of the Mahoning County School Employee Insurance Consortium, Mahoning County, prepared by Canter & Associates, for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mahoning County School Employee Insurance Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 29, 2019

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**Mahoning County School Employees
Insurance Consortium**
Mahoning County

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Mahoning County School Employees Insurance Consortium
Mahoning County
P.O. Box 549
New Middletown, Ohio 44442

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium, Mahoning County, (the "Consortium") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Consortium's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we express no such 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 financial position of the Mahoning County School Employees Insurance Consortium, Mahoning County as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Claims Development Information, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Consortium's internal control over financial reporting and compliance.



Canter & Associates
Poland, Ohio

December 28, 2018

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Unaudited

The management's discussion and analysis of the Mahoning County School Employees Insurance Consortium's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the year ended June 30, 2018. 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 financial statements to enhance their understanding of the Consortium's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- The Consortium's total net position increased by \$2,535,792 to a total of \$9,636,420. This is an increase of 36 percent.
- During fiscal year 2018, the Consortium had operating revenues of \$25,691,762, non-operating revenues of \$60,748, and operating expenses of \$23,216,718.

Using these Basic Financial Statements

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* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Consortium.

Reporting the Consortium Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2018?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Consortium's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Unaudited

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Net Position and Changes in Net Position

Table 1 provides a summary of the Consortium's net position for fiscal year 2018, compared to 2017:

| | (Table 1) | | |
|-----------------------------|---------------------|-------------|-------------|
| | Net Position | | |
| | 2018 | 2017 | Change |
| Current Assets: | | | |
| Cash | \$11,193,420 | \$8,716,628 | \$2,476,792 |
| Current Liabilities: | | | |
| Claims Payable | 1,557,000 | 1,616,000 | (59,000) |
| Net Position | | | |
| Unrestricted | \$9,636,420 | \$7,100,628 | \$2,535,792 |

Total assets of the Consortium totaled \$11,193,420 at June 30, 2018, which represents an increase of \$2,476,792 or 28 percent. This increase is primarily due to an increase in cash and cash equivalents. The Consortium established premiums at a level to build reserves should claims payments fluctuate in a given year. The Consortium will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

Total liabilities of the Consortium totaled \$1,557,000 at June 30, 2018, which represents a decrease of \$59,000 or 4 percent. This decrease is due to the liability for claims payable that is calculated by the Consortium's independent actuary, Arthur J. Gallagher & Co., and estimates the claims incurred and due at year end.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Unaudited

Table 2 shows the revenues, expenses and the changes in net position for the fiscal year ended June 30, 2018 compared to the fiscal year ended June 30, 2017.

(Table 2)
Changes in Net Position

| | 2018 | 2017 | Change |
|---------------------------------|--------------------|--------------------|--------------------|
| Operating Revenues | | | |
| Member Contributions | \$25,691,762 | \$26,288,877 | (\$597,115) |
| Stop Loss Reimbursement | 0 | 631,582 | (631,582) |
| Other Operating Revenues | 0 | 44,624 | (44,624) |
| Total Operating Revenues | 25,691,762 | 26,965,083 | (1,273,321) |
| Operating Expenses | | | |
| Claims | 20,787,824 | 21,548,314 | 760,490 |
| Administration Fees | 1,179,768 | 932,086 | (247,682) |
| Insurance Premiums | 923,503 | 801,424 | (122,079) |
| Professional Fees | 284,256 | 171,907 | (112,349) |
| Other Operating Expenses | 41,367 | 183,626 | 142,259 |
| Total Operating Expenses | 23,216,718 | 23,637,357 | 420,639 |
| Operating Income | 2,475,044 | 3,327,726 | (852,682) |
| Non-Operating Revenues | | | |
| Interest Income | 60,748 | 14,424 | 46,324 |
| Change in Net Position | 2,535,792 | 3,342,150 | (806,358) |
| Net Position Beginning of Year | 7,100,628 | 3,758,478 | 3,342,150 |
| Net Position End of Year | \$9,636,420 | \$7,100,628 | \$2,535,792 |

Sufficient member contributions are required to ensure that the Consortium is able to meet claims expenses. Total operating revenues decreased \$1,273,321 or 5 percent, which is primarily the result of a decrease in member contributions due to one District leaving the Consortium during fiscal year 2018. Non-operating revenue for 2018 consisted of interest income of \$60,748.

The Consortium incurred operating expenses for claims, administrative fees, insurance premiums for specific stop loss coverage, professional fees for attorney, provider and fiscal agent fees, and other fees for service charges and fraud insurance. Total operating expenses decreased \$420,639 or 2 percent, which is primarily due to a decrease in claims paid. The Consortium aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 81 percent of total fiscal year 2018 operating revenues. The Consortium uses Anthem as their third party administrator.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Unaudited

Current Financial Related Activities

The Consortium is committed to providing its member school districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. The Consortium will continue to look at potential members who meet the established criteria. 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 member school districts to participate in the medical and prescription drug insurance program. The Consortium Board of Directors (the "Board") and its consultant continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for member school districts. Establishing premiums that satisfy all claims, administrative fees, and other expenses of the Consortium, in addition to enhancing the net position is important for the short-term and long-term interests of the Consortium.

As claims costs for medical and prescription drug continue to escalate, the Board is faced with the 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 member school districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our citizens, taxpayers, Consortium users, and all 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 any questions about this report or need additional financial information, contact Edward N. Sobnosky, CPA, Treasurer, Springfield Local School District, at esobnosky@springfieldlocal.us.

**Mahoning County School Employees
Insurance Consortium**

*Statement of Net Position
June 30, 2018*

| | |
|--|----------------------------|
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 11,193,420</u> |
| <i>Total Current Assets</i> | <u>11,193,420</u> |
| | |
| Current Liabilities: | |
| Claims Payable | <u>1,557,000</u> |
| <i>Total Current Liabilities</i> | <u>1,557,000</u> |
| | |
| Net Position | |
| Unrestricted | <u>9,636,420</u> |
| <i>Total Net Position</i> | <u><u>\$ 9,636,420</u></u> |

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

**Mahoning County School Employees
Insurance Consortium**

*Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018*

| | |
|---------------------------------------|----------------------------|
| Operating Revenues | |
| Member Contributions | \$ 25,691,762 |
| Other Operating Revenues | <u>-</u> |
| <i>Total Operating Revenues</i> | <u>25,691,762</u> |
| Operating Expenses | |
| Claims | 20,787,824 |
| Administration Fees | 1,179,768 |
| Insurance Premiums | 923,503 |
| Professional Fees | 284,256 |
| Other Operating Expenses | <u>41,367</u> |
| <i>Total Operating Expenses</i> | <u>23,216,718</u> |
| <i>Operating Income</i> | 2,475,044 |
| Non-Operating Revenues | |
| Interest Income | <u>60,748</u> |
| <i>Change in Net Position</i> | 2,535,792 |
| <i>Net Position Beginning of Year</i> | <u>7,100,628</u> |
| <i>Net Position End of Year</i> | <u><u>\$ 9,636,420</u></u> |

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

**Mahoning County School Employees
Insurance Consortium**

*Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018*

| | |
|--|-----------------------------|
| Cash Flows From Operating Activities: | |
| Cash Received from Participants | \$ 25,691,762 |
| Cash Paid for Claims | (20,846,824) |
| Cash Paid for Administrative Fees | (1,179,768) |
| Cash Paid for Insurance Premiums | (923,503) |
| Cash Paid for Professional Fees | (284,256) |
| Cash Paid for Other Operating Expenses | <u>(41,367)</u> |
| <i>Net Cash Provided By Operating Activities</i> | 2,416,044 |
| Cash Flows From Investing Activities | |
| Interest on Investments | <u>60,748</u> |
| <i>Net Increase in Cash and Cash Equivalents</i> | 2,476,792 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>8,716,628</u> |
| <i>Cash and Cash Equivalents End of Year</i> | <u><u>\$ 11,193,420</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$ 2,475,044 |
| Increase (Decrease) in Liabilities: | |
| Claims Payable | <u>(59,000)</u> |
| <i>Net Cash Provided By (Used For) Operating Activities</i> | <u><u>\$ 2,416,044</u></u> |

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

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

Note 1 - Description of the Reporting Entity

The Mahoning County School Employees Insurance Consortium, Mahoning County, (the "Consortium") is a school district council of governments 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 council of governments 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 thirteen members of the Consortium of which all members participate in medical coverage, twelve participate in prescription drug coverage, eleven participate in dental coverage and ten participate in vision coverage at June 30, 2018.

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 15th of the year preceding the fiscal year in which the participating district will withdraw. One member withdrew from the Consortium during the year ending June 30, 2018.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the Consortium have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Consortium's significant accounting policies are described below.

A. Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Consortium consists of all funds, departments, boards and agencies that are not legally separate from the Consortium. For the Consortium, this consists of a single enterprise fund.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

Component units are legally separate organizations for which the Consortium is financially accountable. The Consortium is financially accountable for an organization if the Consortium appoints a voting majority of the organization's Governing Board and (1) the Consortium is able to significantly influence the programs or services performed or provided by the organization; or (2) the Consortium is legally entitled to or can otherwise access the organization's resources; or (3) the Consortium is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Consortium is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Consortium in that the Consortium approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Consortium has no component units.

B. 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 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.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Consortium utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Consortium's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Consortium's operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The Consortium distinguishes operating revenues and expenses from non-operating items. Operating revenues generally result from member contributions for insurance coverage and stop loss reimbursement. Operating expenses for the Consortium include the payment of claims, administrative fees, carrier stop loss premiums, professional fees and other fees. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

D. Cash and Cash Equivalents

The Consortium maintains interest bearing depository accounts. All funds of the Consortium are maintained in these accounts. These interest bearing depository accounts are presented in the statement of net position as “Cash and Cash Equivalents”.

During fiscal year 2018, investments were limited to STAR Ohio.

STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79’ “Certain External Investment Pools and Pool Participants.” The Consortium measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business days(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

E. Budgetary Process

The member school districts 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, therefore, no budgetary information is provided in these basic financial statements.

F. Net Position

Net Position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Consortium had no restricted net position at June 30, 2018.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Fair Market Value

The Consortium categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

H. Consortium Receipts

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.

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. 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.

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 percent or 70 percent for medical coverage, and 90 percent or 85 percent for pharmacy, dental, and vision coverage 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 a periodic payments or a lump sum after the total assessment is determined.

Note 3 – Deposits and Investments

In accordance with the Constitution of the Consortium, the investment of the Consortium funds shall be subject to the laws of the State of Ohio concerning the investment and management of public funds, particularly Chapter 135 of the Ohio Revised Code, and are the responsibility of the fiscal agent. The following disclosures relate to the deposits and investments of the Consortium.

Monies held by the Consortium are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board 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.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

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.

Interim monies held by the School District can 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 payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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 exception 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.

Deposits with Financial Institutions

At year-end, the carrying amount of the Consortium's deposits was \$3,071,674, none of which was cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, \$2,040,469 of the Consortium's bank balance of \$3,119,393 was covered by the Federal Deposit Insurance Corporation, meaning \$1,078,924 was exposed to custodial risk as discussed below.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

Custodial Credit Risk 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 percent 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. The Consortium has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Consortium to a successful claim by the FDIC.

Investments

As of June 30, 2018, the Consortium had \$8,121,746 invested in STAR Ohio. The Consortium's investments are valued using quoted market prices (level 1 inputs).

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

Credit Risk STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Consortium has no investment policy that addresses credit risk.

Concentration of Credit Risk The Consortium places no limit on the amount it may invest in any one issuer. The Consortium's investment in STAR Ohio represents 100 percent of total investments.

Note 4 - Risk Management

The Consortium contracted with a third party administrator, Anthem, for the year ended June 30, 2018, to process and pay health benefit claims incurred by its members. Payments are made by members to the Consortium for monthly health insurance premiums, COBRA administration, monthly stop-loss premiums, and administrative charges. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums, COBRA administration, and administrative charges incurred on behalf of the Consortium members.

A third-party insured the Consortium for specific stop-loss claims in excess of \$300,000 per covered person for the year ended June 30, 2018. The annual maximum specific stop-loss claims per covered person for 2018 was unlimited. A third-party also insured the Consortium for aggregate stop loss claims.

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.

GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", and GASB Statement No. 30, "Risk Financing Omnibus - an amendment of GASB Statement No. 10", establish accounting and financial reporting standards for insurance related activities of State and local governmental entities, and requires that actuarial techniques be utilized to estimate any claims' liabilities, including those for claims incurred but not reported. The Consortium has recorded benefit obligations as of June 30, 2018 totaling \$1,557,000, which includes reported claims not yet paid, claims

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to the Basic Financial Statements
June 30, 2018

incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. This amount is actuarially determined using historical trends in lag between the date a claim is incurred and paid.

Changes in claims activity by plan for the past two fiscal years are as follows:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|------------------------------------|------------------------|-------------------|---------------------------|
| 2017 | \$1,996,000 | \$21,548,314 | \$21,928,314 | \$1,616,000 |
| 2018 | 1,616,000 | 20,787,824 | 20,846,824 | 1,557,000 |

Note 5 – Tax Status

The trust established under the Consortium to hold plan assets is qualified pursuant to the appropriate section of the Internal Revenue Code as a tax exempt organization. The Consortium has obtained a favorable determination from the Internal Revenue Service and the Consortium believes that the plan continues to qualify and operate as designated.

Note 6 – 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 \$6,000 for the year ended June 30, 2018 was paid to Springfield Local School District.

Note 7 – Accountability and Compliance

A. Change in Accounting Principles

For fiscal year 2018, the Consortium has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, Statement No. 81, “Irrevocable Split-Interest Agreements”, Statement No. 85, “Omnibus 2017”, and GASB Statement No. 86, “Certain Debt Extinguishment Issues”.

GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The implementation of GASB Statement No. 75 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 81 aims to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts-or other legally enforceable agreements with characteristics that are equivalent

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Mahoning County, Ohio

Notes to the Basic Financial Statements
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to split-interest agreements-in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 86 aims to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Consortium.

Note 8 – Litigation

The Consortium is not party to any litigation as a defendant.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Notes to Required Supplementary Information
Claims Development Information

The following table illustrates how the Consortium's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the fiscal year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
- (6) This line compares the latest re-estimated net incurred losses amount to the originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio

Supplementary Information
Claims Development Information

| | 6/30/2018 | 6/30/2017 | 6/30/2016 | 6/30/2015 |
|---|------------|------------|------------|------------|
| 1 Premium and investment income | 25,752,510 | 26,303,301 | 23,882,199 | 18,198,447 |
| 2 Unallocated cash disbursements | 2,428,894 | 2,089,043 | 1,937,356 | 1,905,084 |
| 3 Claims disbursements | 20,787,824 | 21,548,314 | 22,841,898 | 20,331,041 |
| 4 Claims paid, cumulative as of: | | | | |
| End of Policy year | N/Av | N/Av | N/Av | N/Av |
| One year later | | N/Av | N/Av | N/Av |
| Two years later | | | N/Av | N/Av |
| Three years later | | | | N/Av |
| Four years later | | | | |
| Five years later | | | | |
| Six years later | | | | |
| Seven years later | | | | |
| Eight years later | | | | |
| Nine years later | | | | |
| 5 Re-Estimated incurred losses and expense: | | | | |
| End of Policy year | N/Av | N/Av | N/Av | N/Av |
| One year later | | N/Av | N/Av | N/Av |
| Two years later | | | N/Av | N/Av |
| Three years later | | | | N/Av |
| Four years later | | | | |
| Five years later | | | | |
| Six years later | | | | |
| Seven years later | | | | |
| Eight years later | | | | |
| Nine years later | | | | |
| 6 Increase in estimated incurred losses and expenses from end of accident year. | N/Av | N/Av | N/Av | N/Av |

N/Av - Data not available as of June 30 of each period



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CERTIFIED PUBLIC ACCOUNTANTS

WWW.CANTERCPA.NET

**INDEPENDENT AUDITOR'S 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***

Mahoning County School Employees Insurance Consortium
Mahoning County
P.O. Box 549
New Middletown, Ohio 44442

To the Board of Directors:

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 Mahoning County School Employees Insurance Consortium, Mahoning County, (the "Consortium") as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Consortium's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Mahoning County School Employees Insurance Consortium
Mahoning County
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of reasonably assuring whether the Consortium's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Consortium's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Canter & Associates
Poland, Ohio

December 28, 2018

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OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 12, 2019**