



**TRUMBULL COUNTY SCHOOLS EMPLOYEE
INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TRUMBULL COUNTY SCHOOLS EMPLOYEE
INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Trumbull County Schools Employee
Insurance Benefit Consortium
347 North Park Avenue
Warren, Ohio 44481

To the Members of the Assembly and the Executive Board:

We have audited the accompanying financial statements of the Trumbull County Schools Employee Insurance Benefit Consortium (the Consortium) as of and for the years ended June 30, 2001 and June 30, 2000. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statement referred to above present fairly, in all material respects, the fund cash balance of Trumbull County Schools Employee Insurance Benefit Consortium, as of June 30, 2001 and June 30, 2000, and its cash receipts and cash disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2002 on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of the Assembly and the Executive Board
Trumbull County Schools Employee Insurance
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Trumbull County
Report of Independent Accountants
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This report is intended solely for the information and use of, management, Members of the Assembly, Executive Board, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 28, 2002

TRUMBULL COUNTY SCHOOLS EMPLOYEE INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSMENTS, AND
CHANGES IN FUND CASH BALANCE

FOR THE YEAR ENDED JUNE 30, 2001

Cash Receipts:

Contributions from Members	\$7,953,616
Earnings on Investments	<u>76,697</u>
Total Cash Receipts	<u>8,030,313</u>

Cash Disbursements:

Claims Payments	5,392,183
Administration Fees	121,783
Miscellaneous Cash Disbursements	<u>1,799</u>
Total Cash Disbursements	<u>5,515,765</u>

Excess of Cash Receipts Over/ (Under) Cash Disbursements	<u>2,514,548</u>
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Fund Cash Balance, July 1, 2000	<u>846,241</u>
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Fund Cash Balances, June 30, 2001	<u><u>\$3,360,789</u></u>
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The notes to the financial statements are an integral part of this statement.

TRUMBULL COUNTY SCHOOLS EMPLOYEE INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSMENTS, AND
CHANGES IN FUND CASH BALANCE

FOR THE YEAR ENDED JUNE 30, 2000

Cash Receipts:

Contributions from Members	\$130,123
Earnings on Investments	<u>42,831</u>
Total Cash Receipts	<u>172,954</u>

Cash Disbursements:

Claims Payments	138,624
Administration Fees	92,097
General American Deficit	238,064
Miscellaneous Cash Disbursements	<u>2,161</u>
Total Cash Disbursements	<u>470,946</u>

Total Receipts Over/(Under) Disbursements (297,992)

Fund Cash Balances, July 1 1,144,233

Fund Cash Balances, June 30 \$846,241

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

**TRUMBULL COUNTY SCHOOLS EMPLOYEE INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Trumbull County Schools Employee Insurance Benefit Consortium (the Consortium) is a Council of Governments established pursuant to Ohio Revised Code Chapter 167. The Council of Government (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 Statement No. 10. 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 Council 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, 2001 there were seventeen 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 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 financial statements present all activities for which the Consortium is financially accountable.

B. BASIS OF ACCOUNTING

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

The Consortium's financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

The Treasurer of the Trumbull County Educational Service Center serves as the Consortiums fiscal agent. The Consortium has an agreement with Cortland Bank who serves as their trustee for the payment of the Consortium's obligations and the investment of the surplus cash on hand. Certificates of deposit are valued at cost. The Consortium has no investments.

**TRUMBULL COUNTY SCHOOLS EMPLOYEE INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. BUDGETARY PROCESS

The member governments of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process but as part of their by-laws, the Consortium must submit to the Assembly a written estimate of (a) Program Costs for the next fiscal year, and (b) each Member's share of those Program Costs.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2001</u>	<u>2000</u>
Demand deposits	\$3,051,502	\$846,241
Certificates of deposits	<u>309,287</u>	<u> </u>
Total deposits and investments	<u>\$3,360,789</u>	<u>\$846,241</u>

Deposits: Deposits are either insured by the Federal Depository Corporation or collateralized by the financial institution's public entity deposit pool.

3. UNFUNDED CLAIMS

The Consortium obtains an actuarial report that reflects a valuation that provides an estimate of runoff liability for incurred but not reported (IBNR) claims of the insurance program based on generally accepted actuarial assumptions, methods and principles, with particular regard to the standards set forth in the Actuarial Standard of Practice No. 5 of the Actuarial Standards Board of the American Academy of Actuaries. The actuarial recommends that the Consortium maintain reserves of \$1,790,000, as of June 30, 2001. Reported reserved funds available to pay IBNR as of that date are \$3,245,821.

4. RISK MANAGEMENT

The Consortium contracts with a third party administrator, Medical Mutual of Ohio, to process and pay health benefit claims incurred by its members. They also contract with a third party administrator, CoreSource of Columbus, to process and pay vision claims incurred by its members. Payments are made by members to the Consortium for monthly health insurance premiums and administrative charges. The Fiscal Officer makes monthly payments to the third party administrators for actual insurance claims processed and administrative charges incurred on behalf of Consortium members.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flows, resulting in a transfer of all risk. The Executive Board shall annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made under the Health Benefits Plan covered persons which would not be paid by the aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

**TRUMBULL COUNTY SCHOOLS EMPLOYEE INSURANCE BENEFIT CONSORTIUM
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000
(Continued)**

4. RISK MANAGEMENT - (Continued)

A member school may withdraw from the Consortium or any particular benefits program in writing no later than December 15 preceding the beginning of the fiscal year in which that member seeks to withdraw. The obligation for the payment of any negative balance in a member's account and the remaining claims of any of its eligible members is the responsibility of each individual school upon withdrawal from the Consortium. (Niles City School District withdrew from the Consortium during the period July 1, 2000 through June 30, 2001.)

The Consortium uses reinsurance agreements (stop-loss agreements) to reduce its risk to the possibility of large losses on medical claims. These reinsurance agreements allow the Consortium to recover a portion of the losses from reinsurers, although it does not discharge the primary liability of the Consortium. The Consortium does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurance.

5. CONTRACTED SERVICES

The Consortium contracts with Watson Wyatt Worldwide to prepare requests for proposals and handles the bidding process. They also analyze the claims paid to be sure that everyone in the Consortium has the same benefits. They audit the claims to determine if the claims paid are for actual employees and/or eligible dependents.

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

Trumbull County Schools Employee Insurance Benefit Consortium
Trumbull County
347 North Park Avenue
Warren, Ohio 44481

To the Members of the Assembly and the Executive Board:

We have audited the financial statements of the Trumbull County Schools Employee Insurance Benefit Consortium (the Consortium) as of and for the years ended June 30, 2001 and June 30, 2000 and have issued our report thereon dated February 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Trumbull County Schools Employee Insurance Benefit Consortium in a separate letter dated February 28, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Trumbull County Schools Employee Insurance Benefit Consortium in a separate letter dated February 28, 2002.

Trumbull County Schools Employee Insurance
Benefit Consortium
Trumbull County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, Members of the Assembly, and Executive Board, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 28, 2002



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TRUMBULL COUNTY SCHOOL EMPLOYEE INSURANCE BENEFIT 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
MARCH 21, 2002**