

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

MAHONING COUNTY

REGULAR AUDIT

JULY 1, 2003 THROUGH JUNE 30, 2005

PREPARED BY: HILL, BARTH & KING, INC.



**Auditor of State
Betty Montgomery**

Board of Directors
Mahoning County School Employees Insurance Consortium
225 Idaho Road
Youngstown, Ohio 44515

We have reviewed the *Independent Auditors' Report* of the Mahoning County School Employees Insurance Consortium, Mahoning County, prepared by Hill, Barth & King LLC, for the audit period July 1, 2003 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 20, 2006

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FINANCIAL STATEMENTS

MAHONING COUNTY SCHOOL EMPLOYEES
INSURANCE CONSORTIUM

MAHONING COUNTY, OHIO

June 30, 2005 and 2004

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October 31, 2005

Board of Directors
Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio
Youngstown, Ohio

Independent Auditors' Report

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the Consortium has prepared its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Consortium to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2005 and 2004. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements.

The Auditor of State permits, but does not require governments to reformat their statements. The Consortium has elected not to reformat its statements. Since the Consortium does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding three paragraphs, the financial statements referred to above for the years ended June 30, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2005 and 2004 or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Mahoning County School Employees Insurance Consortium as of June 30, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note A describes.

The aforementioned revision to generally accepted accounting principles also requires the Consortium to include Management's Discussion and Analysis for the years ended June 30, 2005 and 2004. The Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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 audits.

Hill, Barth & King LLC

Certified Public Accountants

STATEMENTS OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

General Fund

Years ended June 30, 2005 and 2004

	2005	2004
RECEIPTS		
Receipts from member districts	\$ 29,637,466	\$ 29,975,172
Receipts from stop-loss refunds	1,383,487	267,257
Investment income	115,394	26,047
TOTAL RECEIPTS	31,136,347	30,268,476
DISBURSEMENTS		
Payments to third-party administrator:		
Claims payments	27,006,582	26,282,172
Administrative fees	523,428	518,074
Stop-loss insurance premiums	951,268	897,714
Miscellaneous other costs	131,108	127,320
Consultanting service fees	42,000	0
Fiscal agent fee	5,000	1,800
Audit fees	304	4,884
Miscellaneous other costs	7,593	1,132
TOTAL DISBURSMENTS	28,667,283	27,833,096
EXCESS OF RECEIPTS OVER DISBURSEMENTS	2,469,064	2,435,380
Beginning fund cash and investment balance	5,343,621	2,908,241
Ending fund cash and investment balance	\$ 7,812,685	\$ 5,343,621

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity:

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

The Assembly is the legislative body of the Consortium consisting of the Superintendents, or a Superintendent's designee, from each member school district (participant). Officers of the Assembly are elected from the membership for a one year term. The Assembly appoints a board of directors, which acts as the managerial body of the Consortium, consisting of the Superintendent from the Mahoning County Educational Service Center, the Superintendent from the Austintown Local School District that serves as the Consortium's fiscal agent, and three other members of the Assembly who are elected from the membership for a two year term.

Members contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Assembly. For the years ended June 30, 2005 and 2004, a third-party insured the Consortium for annual claims in excess of \$135,000 per participant and \$34,798,751 in aggregate for 2005 and \$32,952,154 in aggregate for 2004.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of the Entity (Continued):

Members may withdraw from the Consortium or from any particular benefits program with at least 12 months notice. No members withdrew from the Consortium during the period from July 1, 2003 through June 30, 2005.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the members account balances through June 30, 2005.

Management believes these financial statements present all activities for which the Consortium is financially accountable.

Basis of Accounting:

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

Fund Accounting:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process:

The Consortium is not required to follow the budgetary process but has decided to adopt a formal budget annually as part of their amended and restated agreement.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund/function level of control. Independent insurance consultants annually recommend appropriation measures and they are approved by the Assembly annually along with any subsequent amendments.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of July 1.

3. Encumbrances

The Consortium does not reserve encumbrances.

A summary of the 2005 and 2004 budgetary activity appears in Note C.

Cash and Investments:

Investments are reported as assets and are carried at cost which approximates fair value. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE B - EQUITY IN POOLED CASH AND INVESTMENTS

X In March 2003, the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks. GASB Statement No. 40 was adopted by the Consortium during 2005.

The Consortium maintains a cash and investment pool used by all funds. The Consortium's amended and restated agreement requires that cash and investments be maintained in compliance with the Consortium's investment policy which prescribes allowable deposits and investments although the Consortium is not required by law to have an investment policy. The authorized financial dealers and institutions must be qualified under ORC Section 135. The Consortium is permitted to hold interim deposits in an eligible financial institution and other monies are permitted to be invested in overnight government sweep accounts with a bank or savings and loan association eligible to be a depository of public funds of Ohio.

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

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ (689,575)	\$ (2,037,421)
Government Sweep Account	<u>8,502,260</u>	<u>7,381,042</u>
Total deposits and investments	<u>\$ 7,812,685</u>	<u>\$ 5,343,621</u>

Deposits:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE C - BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2005 and 2004 were as follows:

2005 BUDGETED VS ACTUAL RECEIPTS

<u>FUND TYPE</u>	<u>BUDGETED RECEIPTS</u>	<u>ACTUAL RECEIPTS</u>	<u>VARIANCE</u>
General	<u>\$ 30,996,439</u>	<u>\$ 31,136,347</u>	<u>\$ 139,908</u>

2005 BUDGETED VS ACTUAL EXPENDITURES

<u>FUND TYPE</u>	<u>APPROPRIATION</u>	<u>ACTUAL EXPENDITURES</u>	<u>VARIANCE</u>
General	<u>\$ 28,776,926</u>	<u>\$ 28,667,283</u>	<u>\$ 109,643</u>

2004 BUDGETED VS ACTUAL RECEIPTS

<u>FUND TYPE</u>	<u>BUDGETED RECEIPTS</u>	<u>ACTUAL RECEIPTS</u>	<u>VARIANCE</u>
General	<u>\$ 30,266,439</u>	<u>\$ 30,268,476</u>	<u>\$ 2,037</u>

2004 BUDGETED VS ACTUAL EXPENDITURES

<u>FUND TYPE</u>	<u>APPROPRIATION</u>	<u>ACTUAL EXPENDITURES</u>	<u>VARIANCE</u>
General	<u>\$ 27,839,860</u>	<u>\$ 27,833,096</u>	<u>\$ 6,764</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE D - RELATED PARTY TRANSACTIONS

As permitted by the Consortium's amended and restated 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 for the years ended June 30, 2005 and 2004 was paid to Austintown Local School District and amounted to \$5,000 and \$1,800, respectively.

NOTE E - RISK MANAGEMENT

The Consortium contracted with a third-party administrator, Professional Risk Management, to process and pay health benefit claims incurred by its members. The members contribute monthly premiums into the general fund of the Consortium. The Fiscal Officer approves monthly payments to the third-party administrator for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Consortium members. Besides the standard monthly contributions, the Consortium may extend an assessment to each member based on a three-year window calculation determined by the independent insurance consultants. The total assessments for the three-year window ended June 30, 2005 amounted to \$581,897. The assessments are billed to the member districts in equal monthly installments over the 12 months following the assessment date of June 30, 2005.

Member school districts that withdraw from the Consortium are obligated for payment of any negative balance in their account and the remaining claims of any of its eligible members and dependents is the responsibility of each individual school upon withdrawal from the Consortium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

June 30, 2005 and 2004

NOTE F - CLAIMS LIABILITY

The Consortium receives an annual actuarial report that estimates an amount for the runoff liability for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the years ended June 30, 2005 and 2004. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Cash and investments	\$ 7,812,685	\$ 5,343,621
IBNR actuarial liability	<u>(3,642,700)</u>	<u>(3,887,450)</u>
Excess funds	<u>\$ 4,169,985</u>	<u>\$ 1,456,171</u>

NOTE G - SUBSEQUENT EVENTS

On September 6, 2005, the Austintown Local School District submitted a letter to the Mahoning County School Employees Insurance Consortium notifying them of its intention to withdraw from the Consortium effective July 1, 2006.

Effective October 1, 2005, the Mahoning County School Employees Insurance Consortium terminated its third-party administrative service agreement with Professional Risk Management and entered into a third-party administrative service agreement with Medical Mutual Services LLC.



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October 31, 2005

Board of Directors
Mahoning County School Employees Insurance Consortium
Mahoning County, Ohio
Youngstown, Ohio

Report On Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 31, 2005, wherein we noted the Consortium prepared its financial statements using the accounting practices the Auditor of State established rather than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, 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 statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Mahoning County School Employees Insurance Consortium in a separate letter dated October 31, 2005.

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

Hill, Barth & King LLC

Certified Public Accountants

STATUS OF PRIOR YEAR AUDIT CITATIONS AND RECOMMENDATIONS

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
MAHONING COUNTY, OHIO

Years ended June 30, 2005 and 2004

The prior audit report, for the year ended June 30, 2003, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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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
MARCH 30, 2006**