



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

**REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2012**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Mahoning County School Employees Insurance Consortium, Mahoning County, prepared by Canter & Associates, for the audit period July 1, 2011 through June 30, 2012. 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 Accountants' 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 Accountants' 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 19, 2013

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**Mahoning County School Employees
Insurance Consortium**

Mahoning County

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

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, 2012. 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 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Consortium has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the fund the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Consortium's larger (i.e. major) funds separately. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require the Consortium to reformat their statements. The Consortium has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended June 30, 2012 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, 2012, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance as of June 30, 2012 of the Mahoning County School Employees Insurance Consortium, Mahoning County, and its cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

As described in Note 6, during 2012 the Council adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2013, 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*. You should read it in conjunction with this report in assessing the results of our audit.



Canter & Associates
Poland, Ohio

January 20, 2013

**MAHONING COUNTY SCHOOL EMPLOYEES
INSURANCE CONSORTIUM**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund
Cash Receipts:	
Receipts from Members	\$17,358,298
Stop Loss Insurance Reimbursement	66,112
Prescription Drug Forumulary Rebate	316,231
Medical Mutual Access Refund	226,313
Earnings on Investments	4,555
 Total Cash Receipts	 17,971,509
Cash Disbursements:	
Payments to Third-Party Administrator:	
Claim Payments	16,132,414
Administrative Fees	835,474
Group Health Consulting Fees	54,000
Cobra Administration Fees	12,828
Employee Assistance Program Fees	18,000
Bank Fees	346
Stop-Loss Insurance Premiums	891,616
Access Fees	48,181
Wellness Incentive	18,949
Fiscal Agent Fees	5,000
Audit Fees	2,949
Miscellaneous Other Costs	3,049
 Total Cash Disbursements	 18,022,806
 Total Receipts Over/(Under) Disbursements	 (51,297)
 Fund Cash Balance, July 1	 \$9,513,982
 Fund Cash Balance, June 30	
Unassigned	\$9,462,685
 Fund Cash Balance, June 30	 \$9,462,685

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Mahoning County School Employees Insurance Consortium, Mahoning County, (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 Assembly Statement (GASB) No. 10, as amended by GASB Statement No.30. 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 Assembly members for a one year term and preside over all meetings of the Board and Assembly.

Members can choose from medical, prescription drug, dental and vision coverage. There are currently twelve members of the Consortium of which all members participate in medical coverage, eleven participate in prescription drug coverage, nine participate in dental coverage and five participate in vision coverage at June 30, 2012.

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. No members withdrew from the Consortium during the year ending June 30, 2012.

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 statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

C. Fund Accounting

The Consortium uses fund accounting to segregate cash and investments that are restricted as to use. The Consortium classifies its only fund into the following type:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

D. Budgetary Process

The Consortium is not required to follow the budgetary process and does not follow the budgetary process.

E. Receipts of the Entity

Members contribute monthly premiums to the Consortium based upon amounts recommended by independent insurance consultants and approved annually by the Assembly. The premiums are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Each member assumes the risks of all other members, to the extent of contributions by that member into the Consortium's fund. In accordance with the agreement the Assembly has the authority to approve a premium holiday if they determine that surplus funds in excess of one hundred and fifty percent of the average monthly claims for the most recent twelve-month period are available.

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% or 70% for medical coverage, and 90% or 85% 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Third Party Administrators

On October 1, 2005, the Consortium contracted with a third-party administrator, Medical Mutual, to process and pay health benefit claims incurred by its members. The Fiscal Officer approves monthly payments to the third-party administrator for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Consortium members. See note 5 for more detail.

G. Cash and Investments

The Consortium's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Consortium must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Consortium classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

The Assembly can *commit* amounts via formula action (resolution). The Consortium must adhere to these commitments unless the Assembly amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned

Assigned fund balances are intended for specific purpose but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* amounts represent intended uses established by Consortium or a Consortium official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Consortium applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The carrying amount of the Consortium's cash and investments at June 30, 2012 was as follows:

	2012
Demand deposits	<u>\$2,180,259</u>
STAR Ohio-Investment	<u>7,282,426</u>
Total deposits and investments	<u>\$9,462,685</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; or (2) collateralized by the financial institution's public entity deposit pool.

Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form.

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 service rating.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

3. UNFUNDED CLAIMS

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 year ended June 30, 2012. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2012 is as follows:

Cash	\$9,462,685
IBNR actuarial liability	<u>(1,620,224)</u>
Excess funds	<u><u>\$7,842,461</u></u>

The Consortium also incurred claims that have been processed but not paid as of June 30, 2012 that amounted to \$129,440. These claims are not included in the IBNR claim liability at June 30, 2012.

4. RELATED PARTY TRANSACTIONS

As permitted by the Consortium's agreement, the Assembly is authorized to approve the payment of a management fee to the member appointed as the fiscal agent for the Consortium. The fiscal agent fee of \$5,000 for the year ended June 30, 2012 was paid to Springfield Local School District.

5. RISK MANAGEMENT

The Consortium contracted with a third party administrator, Medical Mutual, for the year ended June 30, 2012, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

5. RISK MANAGEMENT (Continued)

A third-party insured the Consortium for specific stop-loss claims in excess of \$200,000 per covered person for the year ended June 30, 2012. The annual maximum specific stop-loss claims per covered person for 2012 were \$2,000,000. A third-party also insured the Consortium for aggregate stop loss claims in excess of \$19,843,349.

An actuarial valuation of the health care plan is prepared annually under the guidelines set forth in Actuarial Standards of Practice No. 5, *Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

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.

6. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2012, the Consortium has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement did not have an effect on the Consortium's financial statements



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**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 the financial statements of the Mahoning County School Employees Insurance Consortium, Mahoning County, (the Consortium) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 20, 2013, wherein we noted the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted Governmental Accounting Standards Board Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control over financial reporting.

A *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

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



Canter & Associates
Poland, Ohio

January 20, 2013

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Dave Yost • Auditor of State

MAHONING 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
APRIL 2, 2013**