



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

**REGULAR AUDIT  
FOR THE YEAR ENDED JUNE 30, 2016**





# 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 Auditor's Report* of the Mahoning County School Employees Insurance Consortium, Mahoning County, prepared by Canter & Associates, for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted this report 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 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

December 6, 2016

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

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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 cash balances, receipts, and disbursements by fund type, and related notes of the Mahoning County School Employees Insurance Consortium, Mahoning County, (the Consortium) as of and for the year ended June 30, 2016.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permits; 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.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Consortium prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Consortium does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2016, or changes in financial position thereof for the year then ended.



***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Mahoning County School Employees Insurance Consortium, Mahoning County as of June 30, 2016, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, 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

September 29, 2016

**MAHONING COUNTY SCHOOL EMPLOYEES  
INSURANCE CONSORTIUM**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>2016</b>
<b>Cash Receipts:</b>	
Receipts from Members	\$23,870,378
Stop Loss Insurance Reimbursement	622,357
Wellness Initiative Reimbursement	67,220
Earnings on Investments	11,821
Miscellaneous	1,313
 Total Cash Receipts	 24,573,089
<b>Cash Disbursements:</b>	
Payments to Third-Party Administrator:	
Claim Payments	22,841,898
Administrative Fees	921,655
Group Health Consulting Fees	55,400
Cobra Administration Fees	14,976
Employee Assistance Program Fees	35,217
Bank Fees	876
Stop-Loss Insurance Premiums	749,394
Legal Fees	2,181
Fiscal Agent Fees	6,000
Audit Fees	4,670
Taxes and Assessments	146,696
Miscellaneous Other Costs	294
 Total Cash Disbursements	 24,779,257
 Total Receipts Over/(Under) Disbursements	 (206,168)
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	  (206,168)
 Fund Cash Balances, July 1	 \$5,959,419
 Fund Cash Balance, June 30 Unassigned	  \$5,753,251
 Fund Cash Balance, June 30	 \$5,753,251

*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, 2016**

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**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 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, thirteen participate in prescription drug coverage, twelve participate in dental coverage and nine participate in vision coverage at June 30, 2016.

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 15<sup>th</sup> 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, 2016.

**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, 2016**

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**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, 2016**

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**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.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The carrying amount of the Consortium's cash and investments at June 30, 2016 was as follows:

	2016
Demand deposits	<u>\$5,745,299</u>
STAR Ohio-Investment	<u>7,952</u>
Total deposits and investments	<u>\$5,753,251</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 and Mutual Funds are not evidenced by securities that exist in physical or book-entry form.

**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, 2016. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2016 is as follows:

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**3. UNFUNDED CLAIMS CONTINUED**

	<u>2016</u>
Cash	\$5,753,251
IBNR actuarial liability	<u>(1,996,000)</u>
Excess funds	<u>\$3,757,251</u>

**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 \$6,000 for the year ended June 30, 2016 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, 2016, 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, 2016. The annual maximum specific stop-loss claims per covered person for 2016 was unlimited. A third-party also insured the Consortium for aggregate stop loss claims in excess of \$23,252,676.

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.



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**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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2016, wherein we noted the Consortium followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D) permit.

***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*  
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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

September 29, 2016





# Dave Yost • Auditor of State

**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  
DECEMBER 20, 2016**