



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

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REPORT OF INDEPENDENT ACCOUNTANTS

Mahoning County School Employees Insurance Consortium
Mahoning County
225 Idaho Road
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the year ended June 30, 2002. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on the financial statement 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 generally accepted accounting principles.

In our opinion, the financial statement referred to above present fairly, in all material respects, the fund cash balance of the Consortium as of June 30, 2002, and its cash receipts and 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 November 8, 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.

This report is intended solely for the information and use of the management, Members of the Assembly, Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

November 8, 2002

**MAHONING COUNTY SCHOOL EMPLOYEES
INSURANCE CONSORTIUM
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - INSURANCE CONSORTIUM FUND
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Receipts:

Contributions from Members	\$ 23,781,944
Stop Loss Refund	300,617
Earnings on Investments	<u>11,701</u>
Total Cash Receipts	24,094,262

Cash Disbursements:

Claims Payments	22,480,286
Administration Fees	394,641
Stop Loss Insurance Payments	682,078
Miscellaneous Cash Disbursements	<u>135,983</u>
Total Cash Disbursements	<u>23,692,988</u>

Excess of Cash Receipts Over/ (Under) Cash Disbursements	<u>401,274</u>
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Fund Cash Balances - July 1, 2001	<u>72,650</u>
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Fund Cash Balances - June 30, 2002	<u><u>\$ 473,924</u></u>
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The notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

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 Ohio Revised Code Chapter 167. The legislative body of the Consortium is an Assembly 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. The Consortium administers medical, prescription and dental benefit plans for employees of the participating school systems and their eligible dependents.

Contributions to the Insurance Consortium are received monthly from the participant and their employees based upon amounts determined by independent insurance consultants. At June 30, 2002, a third-party insured the Consortium for claims in excess of \$135,000 per participant and \$25,169,865 in the aggregate, annually.

Besides the standard monthly contributions, the Insurance Consortium may extend an assessment to each participant based on a three-year window calculation determined by the independent insurance consultant. The calculation is based on the ratio of total expense to total income for each school during the previous three years ended June 30. The insurance consultant separately reviews each participant's medical, prescription, and dental balances for potential assessments. Conversely, a participant may be eligible for a one month or two month waiver of its monthly contributions based on the above calculation. A participant 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.

Although a participant may withdraw from the Consortium or any particular benefits program, no participant withdrew from the Consortium during the period July 1, 2001 through June 30, 2002.

All administrative costs and expenses incurred for the maintenance of the Consortium have been paid by the participants through June 30, 2002.

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 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, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded 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, 2002 was as follows:

	<u>2002</u>
Demand deposits	(\$496,766)
Repurchase agreement	<u>970,691</u>
Total deposits and investments	<u>\$473,925</u>

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

Investments: Repurchase Agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent, in the Consortium's name.

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 an analysis of historic claims data and generally accepted actuarial principles. The actuarial report for the period ended June 30, 2002 reflects estimated claims as of June 30, 2002 at \$3,632,243. Reported reserve funds available to pay IBNR claims as of that date are \$235,446. Thus, according to the actuarial report estimated IBNR claims as of June 30, 2002 were unfunded by \$3,396,797.

The agreement establishing the Consortium provides that the member school districts (participants) assume the financial risk of the Insurance Consortium to ensure the stability of the Consortium's financial position. The agreement also provides that the participants' contributions to the Consortium, and the disbursements made by the Consortium on the participant's behalf, shall be evaluated annually to decide whether the Consortium should make an adjustment to the amount the participants contribute. Pursuant to this funding arrangement, the Insurance Consortium Assembly passed a resolution June 21, 2001, requiring any participant, whose three-year window balance at June 30, 2002 was in excess of its three-year window threshold, to make an additional (thirteenth) payment for 2002. Also, pursuant to this funding arrangement and to meet the above stated IBNR claims, the Insurance Consortium Assembly passed a resolution, effective July 1, 2001, that increases the participants' monthly contributions to the Consortium for medical coverage by 15%, for prescription coverage by 10%, and for dental coverage by 5%. The aggregate amount of these increases is expected to generate approximately \$2,230,000 to meet the above stated IBNR claims. In addition, the Insurance Consortium Assembly passed a resolution, effective January 1, 2002, that increases the participant's monthly contributions to the Consortium for medical coverage by an additional 20%. The aggregate amount of this increase is expected to generate approximately \$3,295,680 to meet the above stated IBNR claims and provide additional funding for fiscal year 2002.



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

Mahoning County School Employees Insurance Consortium
Mahoning County
225 Idaho Road
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the accompanying financial statements of the Mahoning County School Employees Insurance Consortium (the Consortium) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 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, contracts and grants, 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*.

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 statements 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.

Mahoning County School Employees Insurance Consortium
Mahoning County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 8, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
NOVEMBER 26, 2002**