

FINANCIAL STATEMENTS

MAHONING COUNTY SCHOOL EMPLOYEES
INSURANCE CONSORTIUM

June 30, 2007 and 2006

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Mary Taylor, CPA

Auditor of State

Board of Directors
Mahoning County School Employees Insurance Consortium
11335 Youngstown Pittsburgh Rd.
P.O. Box 549
New Middletown, OH 44442

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, 2005 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 19, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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7680 Market Street
Youngstown, Ohio 44512
(330) 758-8613 PHONE
(330) 758-0357 FAX
www.hbkcpa.com

March 28, 2008

Board of Directors
Mahoning County School Employees Insurance Consortium
New Middletown, 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, 2007 and 2006. 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 more fully in Note A, 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.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above 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, 2007 and 2006, 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 Consortium as of June 30, 2007 and 2006 and its combined cash receipts and disbursements for the years then ended on the accounting basis described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing 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

General Fund

Years ended June 30, 2007 and 2006

	2007	2006
RECEIPTS		
Receipts from member districts	\$ 16,146,370	\$ 27,786,945
Receipts from stop-loss refunds	888,749	863,617
Interest income	664,108	332,509
TOTAL RECEIPTS	17,699,227	28,983,071
DISBURSEMENTS		
Payments to third-party administrator:		
Claims payments	15,019,132	20,740,640
Administrative fees	335,145	599,959
Stop-loss insurance premiums	731,844	1,100,852
Access fees	529,485	222,236
Miscellaneous other costs	56,076	78,452
Consulting fees	49,200	50,000
Fiscal agent fee	5,000	3,333
Disbursed to withdrawing members districts	2,294,141	0
Audit fees	0	6,063
Miscellaneous other costs	572	5,689
TOTAL DISBURSMENTS	19,020,595	22,807,224
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(1,321,368)	6,175,847
Beginning fund cash balance	13,988,532	7,812,685
Ending fund cash balance	\$ 12,667,164	\$ 13,988,532

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2007 and 2006

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 provision and administration of health care benefits for member employees and covered dependents in accordance with the Consortium's 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. 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. 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.

For the years ended June 30, 2007 and 2006, a third-party insured the Consortium for specific stop-loss claims in excess of \$135,000 per covered person with an annual maximum per covered person of \$1,000,000. A third-party also insured the Consortium for aggregate stop-loss claims in excess of \$21,799,189 in 2007 and \$24,747,732 in 2006.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2007 and 2006

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 notification to the fiscal agent on or before October 15 of the year preceding the fiscal year in which the participating district will withdraw. Two members withdrew from the Consortium during the period from July 1, 2005 through June 30, 2007.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the members account balances through June 30, 2007.

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.

Budgetary Process:

The member school districts of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process and does not follow the budgetary process.

Deposits with Financial Institutions:

To improve cash management, cash received by the Consortium is pooled in one central checking and savings account. Monies from all members are maintained in this pool.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2007 and 2006

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

The Consortium maintains its cash in demand deposits at one bank. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$100,000 of the Consortium's bank balance of \$12,991,115 was covered by the Federal Deposit Insurance Corporation, while \$12,891,115 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Consortium's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in a single financial institution collateral pool at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Consortium.

NOTE C - 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, 2007 was paid to Springfield Local School District and the fee of \$3,333 for the year ended June 30, 2006 was paid to Austintown Local School District.

Two member districts withdrew from the Consortium on July 1, 2006. The assembly of the Consortium agreed to reimburse these member districts for run out claims from July 1, 2006 to September 30, 2006. The reimbursement amounted to \$888,197 and is included in the claims payments and administrative fees on the statements of receipts, disbursements and changes in fund cash balances for the year ended June 30, 2007. The assembly of the Consortium also approved a settlement payment of \$2,294,141 to the withdrawing districts. This payment is included in a separate line on the statements of receipts, disbursements and changes in fund cash balances for the year ended June 30, 2007.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MAHONING COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM

June 30, 2007 and 2006

NOTE D - RISK MANAGEMENT

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 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. These assessments were paid in full as of June 30, 2007.

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.

NOTE E - 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, 2007 and 2006. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Cash	\$ 12,667,164	\$ 13,988,532
IBNR actuarial liability	<u>(1,767,605)</u>	<u>(2,108,608)</u>
Excess funds	<u>\$ 10,899,559</u>	<u>\$ 11,879,924</u>



7680 Market Street
Youngstown, Ohio 44512
(330) 758-8613 PHONE
(330) 758-0357 FAX
www.hbkcpa.com

March 14, 2008

Board of Directors
Mahoning County School Employees Insurance Consortium
New Middletown, 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, 2007 and 2006, and have issued our report thereon dated March 28, 2008, 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a material misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be 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, members, board of directors and the Ohio Auditor of State 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

Years ended June 30, 2007 and 2006

The prior audit report, for the years ended June 30, 2005 and 2004 did not include material citations or recommendations.



Mary Taylor, CPA
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
JUNE 3, 2008**