



**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Schools Council of Governments
Stark County
2100 38th Street NW
Canton, Ohio 44709

To the Board of Directors:

We have audited the accompanying financial statements of the Stark County Schools Council of Governments, Stark County, Ohio, (the Council) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Council'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 *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 Council 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 statements referred to above present fairly, in all material respects, the fund cash balance and reserve for encumbrances of the Council as of June 30, 2004, 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 December 30, 2004 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 Audit Committee, management, the 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 30, 2004

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise
Operating Cash Receipts	
Health Benefit Premium Deposits	\$65,249,665
COBRA Deposits	248,338
Flex Pro Plan Deposits	1,213,757
Stop Loss Reimbursements	619,784
Total Operating Cash Receipts	67,331,544
Operating Cash Disbursements:	
Medical Claims	65,276,546
Life Insurance	1,051,565
Administrative Fees	5,891,134
Supplies	1,688
Other	39,222
Total Operating Cash Disbursements	72,260,155
Excess of Operating Cash Receipts Under Operating Cash Disbursements	(4,928,611)
Non-Operating Cash Receipts:	
Interest	420,051
Non-Operating Cash Disbursements	
Refund of Prior Year Receipts	215,534
Excess of Cash Receipts Under Cash Disbursements	(4,724,094)
Fund Cash Balance, July 1, 2003	16,305,258
Fund Cash Balance, June 30, 2004	\$11,581,164
Reserve for Encumbrances, June 30, 2004	\$55,235

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

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**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Stark County Schools Council of Governments, Stark County, Ohio (the Council) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council 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 to promote other cooperative programs (such as the group rating for Workers' Compensation) which may be approved in accordance with the Council by-laws.

The Council Assembly is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member. As of June 30, 2004, there were 42 members of the Council.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flows, resulting in a transfer of all risk. Members with less than 3 years experience are required to maintain a "reserve balance" equal to 30% of their prior fiscal year claims.

The Board of Directors is the advisory body of the Council and is comprised of five individuals, including the Superintendent of the Stark County Educational Service Center who serves as the Chairman. Among other responsibilities, the Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations to the Council Assembly related to member program costs and adjustments.

The Council Agreement can be terminated by two-thirds vote of the participating members. Upon such termination, the net reserve balance will be transferred to the members in proportion to their fiscal year premium deposits divided by the total deposits of all members.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

B. Basis of Accounting

These 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. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

Investments in the Money Market Sweep; Federal National Mortgage Association; and Federal Home Loan Bank; are valued at cost.

D. Fund Accounting

The Council 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 Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income in appropriate for capital maintenance, public policy, management control, accountability or other purposes.

E. Budgetary Process

The Council is not required to follow the budgetary process, but has decided to adopt a formal budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level and appropriations may not exceed estimated resources. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Council reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 budgetary activity appears in Note 3.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. CASH AND INVESTMENTS

The Stark County Educational Service Center (the Educational Service Center) serves as the fiscal agent for the Council. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2004 was as follows:

Demand deposits	(\$1,889,824)
Money Market Sweep	2,208,096
Federal National Mortgage Association	9,762,892
Federal Home Loan Bank	<u>1,500,000</u>
Total Deposits and Investments	<u><u>\$11,581,164</u></u>

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

Federal National Mortgage Association and Federal Home Loan Bank investments are held in book-entry form by the Federal Reserve, in the name of the Stark County Educational Service Center's financial institution. The financial institution maintains records identifying the Stark County Educational Service Center as the owner of these securities.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2004 is as follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Enterprise	\$76,250,000	\$67,751,595	(\$8,498,405)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise	\$76,280,488	\$72,530,924	\$3,749,564

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. RELATED PARTY TRANSACTIONS

In consideration for its services, the Educational Service Center, as fiscal agent, may receive a fee from the Council in such an amount as approved by the Council Assembly. During the fiscal year ended June 30, 2004, \$150,198 of such fees were paid to the Educational Service Center by the Council.

5. RISK MANAGEMENT

The Council contracts with two third party administrators, Medical Mutual of Ohio and Aultcare, to process and pay health benefit claims incurred by its members. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums and administrative charges. During fiscal year 2004, the Council purchased specific stop-loss coverage of \$250,000 per individual and a maximum aggregate stop-loss coverage liability of \$69,159,978. The Council Treasurer makes monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of Council members. Any rate increases/decreases from the stop-loss insurance carrier are passed on to Council participants through their individual participation rates negotiated with the stop-loss insurance carrier. All new members of the Council are required to maintain a 30% reserve balance within three years of joining.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30:

	<u>2004</u>	<u>2003</u>
Cash and Investments	\$11,306,366	\$16,143,143
Actuarial Liabilities	\$ 6,841,000	\$ 5,089,000

The Council also contracts with Caremark, Inc. (Caremark) for prescription drug services. The Council pays Caremark for administrative services. Caremark then forwards all prescription drug claim activity to the respective benefit plan provider who, in turn, credits individual policies for claims processed.

The Council also contracts with Comp Management, Inc. to provide workers' compensation benefits at a reduced pool rate for its members. The experience rating of each participating member is calculated as one experience rate and applied to all participants in the program.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. SEGMENT INFORMATION

The Council maintains separate enterprise fund accounts for health benefits and flexible spending (Internal Revenue Code Section 125) benefits. Separate account information for these accounts for the year ended June 30, 2004 was as follows:

	<u>Health Plan</u>	<u>Flex Pro Plan</u>	<u>Total</u>
Operating Receipts	\$66,107,688	\$1,223,856	\$67,331,544
Operating Disbursements	<u>71,148,985</u>	<u>1,111,170</u>	<u>72,260,155</u>
Operating Receipts Over Operating Disbursements	(5,041,297)	112,686	(4,928,611)
Non-Operating Receipts	420,051	-	420,051
Non-Operating Expenses	<u>215,534</u>	<u>-</u>	<u>215,534</u>
Receipts Over Disbursements	<u>(\$4,836,780)</u>	<u>\$112,686</u>	<u>(\$4,724,094)</u>
Fund Cash Balance, June 30, 2004	<u>\$11,306,366</u>	<u>\$274,798</u>	<u>\$11,581,164</u>

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**Auditor of State
Betty Montgomery**

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

Stark County Schools Council of Governments
Stark County
2100 38th Street NW
Canton, Ohio 44709

To the Board of Directors:

We have audited the accompanying financial statements of Stark County Schools Council of Governments, Stark County, Ohio, (the Council) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 30, 2004. 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 Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting 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.

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Stark County Schools Council of Governments
Stark County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
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This report is intended solely for the information and use of the Audit Committee, management, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 30, 2004



**Auditor of State
Betty Montgomery**

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STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

STARK 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
FEBRUARY 17, 2005**