

FULTON - HENRY COUNTIES COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Fulton-Henry Counties Council
660 N. Perry Street
P.O. Box 546
Napoleon, Ohio 43545

We have reviewed the *Independent Auditors' Report* of the Fulton-Henry Counties Council, Fulton County, prepared by Weber O'Brien, Ltd, for the audit period January 1, 2003 through December 31, 2004. 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.

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 Fulton-Henry Counties Council is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 22, 2006

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FULTON - HENRY COUNTIES COUNCIL

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Fulton - Henry Counties Council
660 North Perry Street
P.O. Box 546
Napoleon, Ohio 43545

We have audited the accompanying combined statements of net assets and activities - modified cash basis of Fulton - Henry Counties Council (the Council), as of and for the years ended December 31, 2004 and 2003. 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 audits in accordance with auditing standards generally accepted in the United States 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States.

The Council's financial statements do not disclose certain information about excess insurance and claims activity. In our opinion, disclosure of this information is required by the Council's basis of accounting; however, management believes it is impractical to develop such information.

In our opinion, except for the omission of the information in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Fulton-Henry Counties Council as of December 31, 2004 and 2003, and the respective changes in its modified cash basis financial position for the years then ended on the basis of accounting described in Note 1.

Board of Directors
Fulton - Henry Counties Council
Page Two

As described in Note 2, the Council has implemented the display provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, effective January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2006 on our consideration of Fulton - Henry Counties Council'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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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 should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by Generally Accepted Accounting Principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Council has not presented certain claims development information that its basis of accounting has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Weber O'Brien Ltd.

May 4, 2006

FULTON - HENRY COUNTIES COUNCIL

Management's Discussion and Analysis For Years Ended December 31, 2004 and 2003 Unaudited

The discussion and analysis of Fulton - Henry Counties Council's (the "Council") financial performance provides an overall review of the Council's financial activities for the years ended December 31, 2004 and 2003. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for 2004 and 2003 are as follows:

The Council's activities are all accounted for in a single proprietary fund.

In total, net assets decreased \$458,917 and \$126,970, respectively.

Charges for services accounted for \$3,591,288 (99%) and \$3,398,923 (99%), respectively, of all revenues. Claims paid were \$3,369,821 (83%) and \$2,895,219 (81%), while disbursements for administrative fees and excess reinsurance premiums were \$703,103 (17%) and \$650,851 (18%) of total operating disbursements of \$4,074,924 and \$3,554,042, respectively.

Using the Basic Financial Statements

This annual report consists of financial statements and notes to those statements. The Council is a single enterprise fund using the modified cash basis of accounting. The combined statement of net assets and activities - modified cash basis provides information about the modified cash basis financial position and activities of the Council.

Table 1 provides a summary of the Council's net assets as of December 31, 2004 and 2003.

	<u>12/31/2004</u>	<u>12/31/2003</u>
<u>Assets:</u>		
Cash and Investments	<u>\$499,579</u>	<u>\$958,496</u>
<u>Net Assets:</u>		
Unrestricted Net Assets	<u>\$499,579</u>	<u>\$958,496</u>

FULTON - HENRY COUNTIES COUNCIL

Management's Discussion and Analysis
 For Years Ended December 31, 2004 and 2003
 Unaudited
 (Continued)

Table 2 reflects the changes in net assets for the years ended December 31, 2004 and 2003.

Table 2
 Change in Net Assets

	2004	2003
<u>Receipts:</u>		
Charges for Services	\$3,591,288	\$3,398,923
Earnings on Investments	24,719	28,149
Total Receipts	<u>3,616,007</u>	<u>3,427,072</u>
<u>Disbursements:</u>		
Claims Paid	3,369,821	2,895,219
Administrative Fees and Stop Loss Premiums	703,103	650,851
Other	2,000	7,972
Total Disbursements	<u>4,074,924</u>	<u>3,554,042</u>
Increase(Decrease) in Net Assets	<u>(\$458,917)</u>	<u>(\$126,970)</u>

Charges for services as the primary revenue source supporting the Council's insurance activities is apparent. Approximately 99 percent of 2004 and 2003 receipts are charges for services for insurance premiums and claims costs. Charges for services are determined each year by the governing board of the Council in conjunction with consulting specialists. Charges for services for 2004 increased \$192,365 from 2003 in anticipation of increased claims payments in 2004. Claims paid increased by \$474,602 in 2004 from 2003; this is attributed to the inflationary increases in per capita claims costs and volume of claims activity.

Administrative fees and stop loss premiums paid in 2004 are \$52,252 higher than 2003 due to modest increases in all of the expenses grouped here and is attributed to inflationary and experience rating adjustments.

Current Issues

Fees for services for claims costs and insurance premiums are approved at board meetings. An additional contribution of \$480,000 for 2005 was approved at the May 2005 board meeting to strengthen designated loss reserves. The board is anticipating that the Council's net assets will remain stable, but required fees for services will continue to be reviewed annually.

FULTON - HENRY COUNTIES COUNCIL

Management's Discussion and Analysis
For Years Ended December 31, 2004 and 2003
Unaudited
(Continued)

Contacting the Council's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Council's finances and to reflect the Council's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Vond Hall, Treasurer, Fulton - Henry Counties Council, c/o Fulton County, 660 N. Perry Street, P.O. Box 546, Napoleon, Ohio, 43545-0546.

FULTON - HENRY COUNTIES COUNCIL
COMBINED STATEMENTS OF NET ASSETS AND ACTIVITIES-MODIFIED CASH BASIS
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING RECEIPTS		
Charges for Services	\$ 3,591,288	\$ 3,398,923
OPERATING DISBURSEMENTS		
Claims Paid	3,369,821	2,895,219
Administrative Fees and Stop Loss Premiums	703,103	650,851
Other Expenses	<u>2,000</u>	<u>7,972</u>
TOTAL OPERATING DISBURSEMENTS	<u>4,074,924</u>	<u>3,554,042</u>
EXCESS OF OPERATING DISBURSEMENTS OVER OPERATING RECEIPTS	(483,636)	(155,119)
NON-OPERATING RECEIPTS		
Earnings on Investments	<u>24,719</u>	<u>28,149</u>
CHANGE IN NET ASSETS	(458,917)	(126,970)
NET ASSETS (UNRESTRICTED) - BEGINNING OF YEAR	<u>958,496</u>	<u>1,085,466</u>
NET ASSETS (UNRESTRICTED) - END OF YEAR	<u>\$ 499,579</u>	<u>\$ 958,496</u>

The Accompanying Notes Are an
Integral Part of the Basic Financial Statements

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

The Fulton-Henry Counties Council, Henry County, (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. The Council is directed by a board of directors under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments. The Council consists of representatives from Fulton and Henry Counties. The Council was formed in 1992 and its purpose is to foster cooperation among its members in all areas of service. Currently, the Council provides health, dental, and prescription drug insurance coverage to Fulton and Henry Counties.

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

Basis of Accounting

The Council's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Council's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Council are described in the appropriate section in this note.

This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Council does not apply FASB statements issued after November 30, 1989.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as claims and accounts payable and accrued expenses and liabilities) are not recorded in these financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of cash receipts and disbursements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Investments

Investments are included in fund cash balances. 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.

Certificates of Deposit and U.S. Treasury and Agency securities are valued at cost. Money market mutual funds are recorded at share values reported by the mutual fund.

Fund Accounting

The council accounts for all of its activities within a single proprietary fund.

Charges for Services

Charges for services are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative expenses of the Council and to create reserves for claims and unallocated loss adjustment expenses. Under the terms of membership, should annual member contributions not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Directors can require supplementary charges. Supplementary charges can be assessed during the entire life of the Council and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

Loss Reserve

Provisions for claims reserves and loss adjustment expenses (Note 4) are based on information reported by members and are calculated by the Council's claims administrator. These amounts represent an estimate of reported, unpaid claims, plus a provision for claims incurred and not reported. The claims reserve is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other factors. Accordingly, the ultimate settlement of losses may vary materially from the estimated amounts disclosed in Note 4. Should the provision for claims reserves not be sufficient, supplemental contributions, as discussed above, will be assessed.

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Reinsurance

The Council uses reinsurance agreements to reduce its exposure to large losses on all types on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Council as direct insurer of the risks reinsured. The Council is contingently liable with respect to certain loss coverage which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE

Effective January 1, 2003, the Council implemented the display provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

NOTE 3 - EQUITY IN CASH AND INVESTMENTS

There are no legal restrictions on the Council's investments or deposits. However, the Council has adopted as their investment policy the legal restrictions imposed by the Ohio Revised Code on certain political subdivisions.

Monies held by the Council are classified into three categories.

Active monies are monies determined to be necessary to meet current demands upon the Treasury. Active monies must be maintained either as cash in the Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are deposits that the Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Council can be deposited or invested in the following securities:

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2004 and 2003

NOTE 3 - EQUITY IN CASH AND INVESTMENTS, Continued

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Interim deposits in eligible institutions. Such deposits are to be awarded to the depository offering to pay the highest permissible rate of interest. The treasurer or the board is to determine the periods for which such deposits are to be made;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 1. and 2. above and repurchase agreements secured by such obligations;
6. The Ohio Subdivision's Fund (STAR Ohio);
7. Commercial paper notes and bankers acceptances; and
8. Debt instruments of Ohio State and local governments.

Council policy requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Council, and that an investment must be purchased with the expectation that it will be held to maturity. Council policy limits investments in commercial paper and banker's acceptances to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily. Council policy limits the investment of interim and inactive monies to certificates of deposit with a term of one year and the expiration of the depository agreement, respectively.

Council policy requires that money market funds have the highest credit rating issued by at least one national rating service. Commercial paper must be rated at the highest classification by at least two national recognized rating services.

Council policy requires that depositories must collateralize deposits and that securities underlying term repurchase agreements must be delivered to the Council.

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2004 and 2003

NOTE 3 - EQUITY IN CASH AND INVESTMENTS, Continued

Deposits

At December 31, 2004 and 2003, the carrying amount of the Council's deposits was \$0 and \$51,438, respectively, and the bank balance was \$0 and \$51,438, respectively. Deposits are insured by the Federal Depository Insurance Corporation.

Investments

The Council's investments are categorized to give an indication of the level of risk assumed by the Council at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Council or its agent in the Council's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Council's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Council's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

As of December 31, 2004 and 2003 the Council had the following investments:

Investments - December 31, 2004	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U. S. Treasury Obligations	\$ 159,241	\$ 159,241	\$ 158,043
U. S. Agency Obligations	313,161	313,161	307,937
Money Market Mutual Fund		27,177	27,177
	<u>\$ 472,402</u>	<u>\$ 499,579</u>	<u>\$ 493,157</u>

Investments - December 31, 2003	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U. S. Treasury Obligations	\$ 311,342	\$ 311,342	\$ 311,069
U. S. Agency Obligations	438,447	438,447	443,720
Money Market Mutual Fund		208,707	208,707
	<u>\$ 749,789</u>	<u>\$ 958,496</u>	<u>\$ 963,496</u>

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2004 and 2003

NOTE 4 - RISK MANAGEMENT

The Council provides health, dental, and prescription drug insurance to employees of Fulton and Henry Counties. The Council pays covered claims to service providers, and recovers these costs through actuarially determined per employee premiums. Following is a comparison of cash and investments to the actuarially-measured liability of both reported and unreported insured events and estimated future payments of claims and losses and related loss adjustments as of December 31:

	<u>2004</u>	<u>2003</u>
Cash and Investments	\$ 499,579	\$ 958,496
Actuarial Liabilities	\$ 758,070	\$ 773,702



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**INDEPENDENT AUDITORS' 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**

Board of Directors
Fulton - Henry Counties Council
660 North Perry Street
P.O. Box 546
Napoleon, Ohio 43545

We have audited the accompanying combined statements of net assets and activities – modified cash basis of Fulton - Henry Counties Council (the “Council”) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated May 4, 2006, in which we noted that the Council has adopted the display provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. Our opinion was qualified because the Council did not disclose certain claims information related to its public entity risk pool activities which is required by its basis of accounting. We also noted that the Council did not provide certain supplementary information required by its basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Fulton - Henry Counties Council’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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's 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*. We noted a certain matter that we reported to management of the Fulton-Henry Counties Council in a separate letter dated May 4, 2006.

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

Weber · O'Brien Ltd.

May 4, 2006

**FULTON - HENRY COUNTIES COUNCIL
SCHEDULE OF PRIOR AUDIT FINDINGS**

YEARS ENDED DECEMBER, 31 2002 AND 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Noncompliance citation for failure to approve an annual budget in accordance with the by-laws governing the Fulton-Henry Counties Council	No	Partially Corrected. Progress has been made reducing this to a management letter comment.
2003-002	Reportable condition for failure to monitor claims paid by third party administrator	Yes	



**Auditor of State
Betty Montgomery**

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FULTON HENRY COUNTIES COUNCIL

FULTON 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 7, 2006**