

**PREBLE COUNTY SCHOOLS REGIONAL
COUNCIL OF GOVERNMENTS
PREBLE COUNTY, OHIO
FINANCIAL STATEMENTS
June 30, 2014 and 2013**



Dave Yost • Auditor of State

Members of the Governing Board
Preble County Schools Regional Council of Governments
597 Hillcrest Dr.
Eaton, OH 45320

We have reviewed the *Independent Auditor's Report* of the Preble County Schools Regional Council of Governments, Preble County, prepared by Joseph Decosimo and Company, LLC, for the audit period July 1, 2012 through June 30, 2014. 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 Preble County Schools Regional Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 1, 2014

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**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

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INDEPENDENT AUDITOR'S REPORT

Council Governing Board
Preble County Schools Regional Council of Governments
Eaton, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), which comprise the fund cash balance of the fund as of June 30, 2014 and 2013, and the related statements of receipts, disbursements and changes in fund balance (cash basis) - enterprise fund for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Ohio Auditor of State, whose practices differ from accounting principles generally accepted in the United States of America (GAAP). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

As described in Note 2, the financial statements are prepared by the Council on the basis of the financial reporting provisions of the Ohio Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America, in order to meet the requirements of the Ohio Auditor of State.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

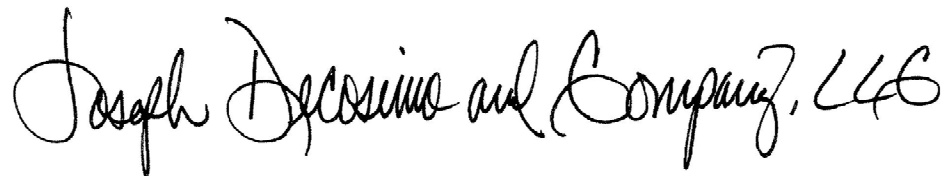
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2014 and 2013, or changes in financial position or cash flows thereof for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance of the fund of Preble County School Regional Council of Governments as of June 30, 2014 and 2013, and its receipts, disbursements, and changes in fund balance (cash basis) - enterprise fund for the years then ended, in accordance with the financial reporting provisions of the Ohio Auditor of State described in Note 2.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of the Council's internal control over financial reporting and on 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 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 Council's internal control over financial reporting and compliance.

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Cincinnati, Ohio
September 23, 2014

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
STATEMENTS OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE (CASH BASIS) - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>Operating Cash Receipts:</u>		
Health Benefit Premium Deposits	\$ 601,035	\$ 363,668
Total Operating Cash Receipts	<u>601,035</u>	<u>363,668</u>
<u>Operating Cash Disbursements:</u>		
Medical Claims	239,739	425,550
Holiday Premium	12,318	21,937
Management Fees	<u>260</u>	<u>300</u>
Total Operating Cash Disbursements	<u>252,317</u>	<u>447,787</u>
Excess of Operating Cash Receipts Over (Under) Operating Cash Disbursements	348,718	(84,119)
<u>Non-Operating Cash Receipts:</u>		
Interest	<u>1,540</u>	<u>2,416</u>
Total Non-Operating Cash Receipts	<u>1,540</u>	<u>2,416</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	350,258	(81,703)
Fund Cash Balance, Beginning of Year	<u>3,592,048</u>	<u>3,673,751</u>
Fund Cash Balance, End of Year	<u><u>\$ 3,942,306</u></u>	<u><u>\$ 3,592,048</u></u>

The accompanying notes are an integral part of the financial statements.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ENTITY

The Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), is a body, politic and corporate, established for the purpose of exercising 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 an insurance-purchasing public entity risk pool, as defined by paragraphs 10 and 13b of the Governmental 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 employees of each member public school district and to promote cooperative programs, which may be approved in accordance with the Council by-laws.

The Council Governing Board is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member district. As of June 30, 2014 and 2013, there were six members of the Council.

The Council Governing Board is the advisory body of the Council. It consists of the authorized representative of each member public school district, which is the superintendent or his/her designee. Among other responsibilities, the Governing Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Governing Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations related to member program costs and adjustments.

The joint insurance purchasing agreement of the member entities can be terminated by two-thirds vote of the Governing Board. Upon such termination, the excess funds of employee benefit trusts, if any, remaining after payment of the obligations of such trust and the payment of the reasonable and necessary expenses incurred in termination of such trust, shall be used toward the initial cost of whatever insurance provider or insurance vehicle replaces such trust for each member district at the time of termination.

Any such distributions for the benefit of a member district shall be in proportion to the total contributions made by such member district while a member of the Council to the total contributions made by all member districts while members of the Council.

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

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Ohio Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received rather than when earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

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

B. CASH AND INVESTMENTS

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2014 and 2013.

C. 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 charge; or (b) where the governing board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. SUBSEQUENT EVENTS

The Council has evaluated subsequent events for potential recognition and disclosure through September 23, 2014 the date the financial statements were available to be issued.

NOTE 3 - FUNDING ARRANGEMENTS

The Council has agreed to an alternate funding arrangement for medical benefits. The program remains insured and is called Contingent Premium, which is a reduced pre-payment form of insurance with an annual settlement.

Funds received by the Council consist of medical premium rates for each of the member school districts' participating employees. Rates are contingent upon the level of claims utilization. The program operates as follows:

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FUNDING ARRANGEMENTS, continued

1. The school pays a monthly contingent premium rate to the insurance carrier for single and family units covered.
2. The Preble County Educational Service Center (the Service Center) serves as the fiscal agent for the Council. The Service Center deposits the difference between the Risk Premium rate and the Contingent Premium rate into a Council bank account each month.
3. Within six months of the end of the contract renewal (March of each year), an annual settlement will be made which will compare the contingent premiums, risk premium, incurred claims, retention charges, and all other data required for settlement in determination of the obligation, if any, to the insurance carrier. The Council's obligation will be determined as follows:
 - a. If the incurred claims plus retention is less than the cumulative contingent premium, no payment shall be due from either party.
 - b. If the incurred claims plus retention is greater than the cumulative contingent premium, but less than the cumulative risk premium, the Council pays the insurance carrier the difference between the incurred claims plus retention and the cumulative contingent premium.
 - c. If the incurred claims plus retention exceeds the cumulative risk premium, the Council shall pay the difference between the cumulative risk premium and the cumulative contingent premium, and the amount in excess of the risk premium shall become the liability of the insurance carrier.

The Council implemented a high deductible second medical core option effective September 1, 2006. Each district was provided the opportunity to offer both options to their employees. The Council agreed that each district could offer a Health Reimbursement Arrangement (HRA) for their employees to offset the higher deductibles. Each district board controls the HRA; the local district contributes all dollars contributed to the HRA account. The employees of each district have no vested interest in any remaining HRA account balances at the time of termination and/or retirement.

In June 2013, the Council set the funding rate at 94% of the full medical premium, 90%-110% contingent premium, for the year ended June 30, 2014. By funding at this level, the member school districts made contributions to the Council's fund balance during fiscal year 2014 in the amount of \$335,726.

In May 2012, the Council set the funding rate at 92% of the full medical premium, 90%-110% contingent premium, for the year ended June 30, 2013. By funding at this level, the member school districts made contributions to the Council's fund balance during fiscal year 2013 in the amount of \$152,370.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amounts of deposits and investments as of June 30, 2014 and 2013, were as follows:

	June 30, 2014	June 30, 2013
Demand Deposits	\$2,532,449	\$2,531,120
Investments – STAR Ohio	<u>1,409,857</u>	<u>1,060,928</u>
Total Deposits and Investments	<u>\$3,942,306</u>	<u>\$3,592,048</u>

Deposits

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

Investments

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

NOTE 5 - RISK MANAGEMENT

The Council contracts with:

1. Horan Associates, Inc., A consulting/brokerage firm to provide expertise in the area of health care benefits and funding arrangements with Anthem Blue cross and Blue Shield;
2. Pohlman and Talmage, a local CPA firm, to monitor the revenue and disbursements from all member districts in the Council's reserve account;
3. Infnisource to provide expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants; and
4. BusinessPlans, Inc. to manage the Health Reimbursement Arrangement (HRA) employee payments and district account balances.

NOTE 6 - RISK LIABILITY

Contingent Premium is a pre-payment form of insurance with an annual settlement. The member districts pay Anthem Blue Cross and Blue Shield 90% of the conventional fully insured rates with a maximum liability of 110% of the conventional fully insured rates. This alternate funding arrangement insured through Anthem Blue Cross and Blue Shield requires an annual settlement within six months of the contract renewal.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - RISK LIABILITY, continued

The amount of obligation is pre-determined each contract year (September 1). The estimated medical liability for the contract year September 1, 2012 through August 31, 2013, is \$1,778,530 and is due in the spring of 2014; the estimated medical liability for the contract year September 1, 2013 through August 31, 2014, is \$1,879,890.

Since the Council's inception in September 1992, the reserve account has exceeded the estimated liability established by Anthem Blue Cross and Blue Shield.

INTERNAL CONTROL AND COMPLIANCE

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*

Council Governing Board
Preble County Schools Regional Council of Governments
Eaton, Ohio

We have audited, 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, the financial statements of the Preble County Schools Regional Council of Governments, Eaton, Ohio, (the Council) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Council's financial statements, and have issued our report thereon dated September 23, 2014, in which it is noted that the Council prepares its financial statements on a basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a basis other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine our 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 Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 entity'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.

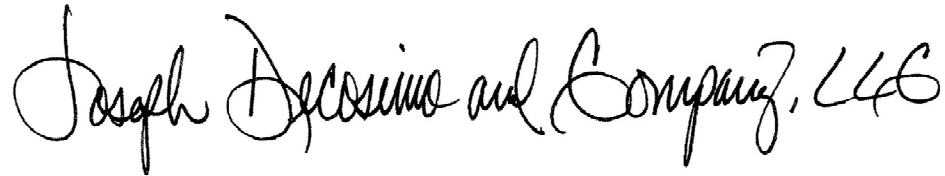
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits, we did not 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 obtaining reasonable assurance about whether the Council'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 audits 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Cincinnati, Ohio
September 23, 2014

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014 and 2013

None reported

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2014 and 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
None reported			



Dave Yost • Auditor of State

PREBLE COUNTY SCHOOL REGIONAL COUNCIL OF GOVERNMENTS

PREBLE 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
OCTOBER 14, 2014**