

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT
STARK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

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REPORT OF INDEPENDENT ACCOUNTANTS

Stark County Schools Council of Government
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 Government, Stark County (the Council) as of and for the year ended June 30, 1999. 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.

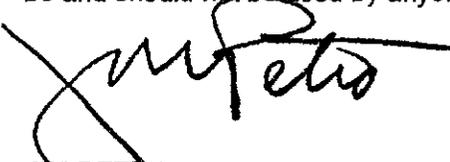
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable 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 described 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 of the Council as of June 30, 1999, 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 10, 1999 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.

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


JIM PETRO
Auditor of State

December 10, 1999

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**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 1999**

	Enterprise
Operating Cash Receipts:	
Health Benefit Premium Deposits	\$33,736,395
COBRA Deposits	156,957
Flex Pro Plan Deposits	738,344
Stop Loss Reimbursements	623,213
Total Operating Cash Receipts	35,254,909
Operating Cash Disbursements:	
Medical Claims	33,168,312
Life Insurance	667,003
Administrative Fees	2,750,357
Supplies	3,237
Other	7,430
Total Operating Cash Disbursements	36,596,339
Excess of Operating Cash Receipts Under Operating Cash Disbursements	(1,341,430)
Non-Operating Cash Receipts:	
Interest	752,061
Building Rent	65,000
Total Non-Operating Cash Receipts	817,061
Excess of Receipts Under Disbursements	(524,369)
Fund Cash Balance, July 1, 1998	13,689,124
Fund Cash Balance, June 30, 1999	\$13,164,755

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

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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Stark County Schools Council of Government, Stark County, (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 a shared risk pool as defined by 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 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, 1999, there were 33 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 to the Council. 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 (the Board) is the advisory body of the Council and is comprised of 5 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 they are earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

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

C. CASH AND INVESTMENTS

Money Market Sweep, Bankers Acceptance, Federal National Mortgage Association, Federal Home Loan Bank and Federal Farm Credit are valued at cost.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 charge; or (b) where the governing body 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.

2. CASH AND INVESTMENTS

The Stark County Educational Service Center (the 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, 1999 was as follows:

Demand Deposits	(\$1,444,727)
Investments:	
Money Market Sweep	374,897
Federal National Mortgage Association	6,691,050
Bankers Acceptance	487,063
Federal Home Loan Bank	5,789,913
Federal Farm Credit	<u>1,266,559</u>
Total Investments	<u>14,609,482</u>
Total Deposits and Investments	<u>\$13,164,755</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, Federal Home Loan Bank, Federal Farm Credit and Bankers Acceptance 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. RELATED PARTY TRANSACTION

In consideration for its services, the Service Center, as fiscal agent, receives a fee from the Council in such an amount as approved by the Council Assembly. During the fiscal year ending June 30, 1999, \$53,101 of such fees were paid to the Service Center by the Council.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

4. CAPITAL LEASE

On June 15, 1995, the Council agreed to construct and lease a building (owned by the Council) to the Service Center for a term of five years commencing on July 1, 1996. The lease requires annual rent payments of \$65,000 payable in lump sum on or before June 30 of each year.

The Council also granted the Service Center an option to purchase the building from the Council for the amount of \$640,125 at the end of the lease term. The closing of the sale to the Service Center is to be not later than 30 days after the end of the lease term.

5. RISK MANAGEMENT

The Council contracts with two third party administrators, Mutual Health Services Company and AultCare Corporation, 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. The 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.

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.

6. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Council's operations as early as 1999. The Council has completed an inventory of computer systems and other electronic equipment that are considered to be mission critical. The Council has identified the following systems requiring Year 2000 remediation:

Utilities

As of June 30, 1999, the Council identified American Electric Power (building electricity) and Consolidated Natural Gas Co. (building gas) as mission critical utility services. These utility companies are responsible for remediating these systems, and are solely responsible for any associated costs.

Business Office Systems

The Stark County Educational Service Center (Service Center) serves as the fiscal agent for the Council. The Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting. The State is responsible for remediating these systems.

Aultcare, Inc. and Mutual Health Services Company, the Council's third party administrators for health insurance, have issued written assurances that all claims adjudication software is believed to be Year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Council is or will be Year 2000 ready, that the Council's remediation efforts will be successful in whole or in part, or that parties with whom the Council does business will be Year 2000 ready.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

7. 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, 1999 was as follows:

	<u>Health Plan</u>	<u>Flex Pro Plan</u>	<u>Total</u>
Operating Receipts	\$35,268,626	\$738,344	\$36,006,970
Operating Disbursements	<u>35,871,616</u>	<u>724,723</u>	<u>36,596,339</u>
Excess of Operating Receipts Over/(Under) Operating Disbursements	(602,990)	13,621	(589,369)
Non-Operating Receipts	<u>65,000</u>	<u>0</u>	<u>65,000</u>
Excess of Receipts Over/(Under) Disbursements	<u>(537,990)</u>	<u>13,621</u>	<u>(\$524,369)</u>
Cash Balance, June 30, 1999	<u>\$13,010,765</u>	<u>\$153,990</u>	



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Directors:

We have audited the financial statements of the Stark County Schools Council of Government, Stark County, (the Council) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 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 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 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.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Council in a separate letter dated December 10, 1999.

Stark County Schools Council of Government
Stark County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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



JIM PETRO
Auditor of State

December 10, 1999



STATE OF OHIO
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STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT, 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.

By: *Susan Babbitt*
Clerk of the Bureau

Date: **JAN 11 2000**