



Mary Taylor, CPA
Auditor of State

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY

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Mary Taylor, CPA

Auditor of State

Preble County Schools Regional Council of Governments
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Council of Governments:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Mary Taylor, CPA
Auditor of State

January 26, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Preble County Schools Regional Council of Governments
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Council of Governments:

We have audited the accompanying financial statements of the Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), as of and for the years ended June 30, 2006 and 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 more fully in Note 1, the Council 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.

Revisions to GAAP would require the Council to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Council does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to reformat its statements. Since this Council does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended June 30, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2006 and 2005, 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 fund cash balances of the Council as of June 30, 2006 and 2005, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Council to include Management's Discussion and Analysis for the years ended June 30, 2006 and 2005. The Council has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

January 26, 2007

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<u>Operating Cash Receipts:</u>		
Health Benefit Premium Deposits	\$1,045,396	\$1,235,826
Total Operating Cash Receipts	1,045,396	1,235,826
<u>Operating Cash Disbursements:</u>		
Medical Claims	997,895	735,645
Management Fees	8,794	8,623
Bank Fees	510	527
Audit Fees		4,142
Miscellaneous		14
Total Operating Cash Disbursements	1,007,199	748,951
Operating Cash Receipts Over Operating Cash Disbursements	38,197	486,875
<u>Non-Operating Cash Receipts:</u>		
Interest	146,796	64,089
Receipts Over Disbursements	184,993	550,964
Fund Cash Balance, July 1	3,413,453	2,862,489
Fund Cash Balance, June 30	\$3,598,446	\$3,413,453

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

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**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 member employees 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, 2006 there were 6 members of the Council.

The Preble County Schools have 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 Council operates in the following manner:

1. Each member school district pays a monthly contingent premium rate to the insurance carrier for single and family units covered.
2. The fiscal agent 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 premium, risk premium, incurred claims, retention charges and all other data required for settlement in determination of the liability, if any, to the insurance carrier. The Council's liability will be determined in the following manner:
 - A. If the incurred claims plus retention is greater than 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 would pay 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.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 designate. 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 Council Agreement can be terminated by two-thirds vote of the Governing Board. Upon such termination, the excess funds of any employee benefit trust, if any, left 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.

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

The Council invested in STAR Ohio (the State Treasurer's investment pool) which is recorded at share value reported by the State Treasurer.

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 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.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. CASH AND INVESTMENTS

The Preble 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, 2006 and 2005 was as follows:

	June 30, 2006	June 30, 2005
Demand deposits	\$11,398	\$0
Investments:		
STAR Ohio	3,587,048	3,413,453
Total investments	3,587,048	3,413,453
Total deposits and investments	\$3,598,446	\$3,413,453

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

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

3. RISK MANAGEMENT

The Council contracts with:

1. Advanced Benefit Planning, 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; and
3. Infnisource provides expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants.

4. 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 85% of the conventional fully insured rates with a maximum liability of 115% 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.

The amount of liability is pre-determined each contract year (September 1). The liability for the contract year September 1, 2004 through August 31, 2005 was \$997,895 and was paid on February 16, 2006; the estimated liability for the contract year September 1, 2005 through August 31, 2006 is \$2,063,998 and is due in the spring of 2007. The estimated liability is higher than in past years due to increased claims utilization.

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Preble County Schools Regional Council of Governments
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Council of Governments:

We have audited the accompanying financial statements of the Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated January 26, 2007, wherein we noted the Council followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Council's management dated January 26, 2007 we reported a matter related to noncompliance we deemed immaterial.

This report is intended solely for the information and use of the audit committee, management and the Council, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 26, 2007



Mary Taylor, CPA
Auditor of State

PREBLE COUNTY SCHOOLS 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
FEBRUARY 13, 2007**