

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2011***

JEFF BARTHOLOMEW, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Stark County Schools Council of Governments, Stark County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. 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 Stark County Schools Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 2, 2011

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**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

TABLE OF CONTENTS

Independent Accountants' Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements:	
Statement of Net Assets - Modified Cash Basis - June 30, 2011	6
Statement of Cash Receipts, Cash Disbursements and Changes in Net Assets - Modified Cash Basis - For the Fiscal Year Ended June 30, 2011	7
Notes to the Basic Financial Statements	8 - 15
Required Supplementary Information:	
Three-Year Loss Development Information	16 - 17
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	18 - 19

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Julian & Grube, Inc.

Serving Ohio Local Governments

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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 Stark County Schools Council of Governments, Stark County, Ohio, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of Stark County Schools Council of Governments' 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 reasonably assure 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 the 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 2, Stark County Schools Council of Governments prepares its financial statements and notes on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stark County Schools Council of Governments, Stark County, Ohio, as of June 30, 2011, and the respective changes in financial position for the fiscal year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of Stark County Schools Council of Governments' 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.

Independent Accountants' Report
Stark County Schools Council of Governments
Page Two

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* on pages 3 – 5 and required supplementary information on pages 16 – 17 as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.
October 14, 2011

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The discussion and analysis of the Stark County Schools Council of Governments' (the "Council") financial performance provides an overall review of the Council's financial activities for the fiscal year ended June 30, 2011, within the limitations of the Council's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the modified cash basis financial statements and notes to the basic financial statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets were \$89,702,252 at June 30, 2011.
- The Council had operating receipts of \$176,664,474 and operating disbursements of \$157,349,465 for fiscal year 2011. The Council also received \$1,184,054 in interest receipts during the year. Total change in net assets for fiscal year 2011 was an increase of \$20,499,063.

Using these Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Council's modified cash basis of accounting. This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Council's financial activities. The statement of net assets – modified cash basis and the statement of cash receipts, cash disbursements, and changes in net assets – modified cash basis provide information about the activities of the Council.

Reporting the Council's Financial Activities

Statement of Net Assets - Modified Cash Basis and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Modified Cash Basis

These documents look at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets – modified cash basis and the statement of cash receipts, cash disbursements, and changes in net assets – modified cash basis answer this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the Council's net assets and changes in those assets on a modified cash basis. This change in net assets is important because it tells the reader that, for the Council as a whole, the modified cash basis financial position of the Council has improved or diminished.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

The statement of net assets – modified cash basis can be found on page 6 of this report and the statement of cash receipts, cash disbursements, and changes in net assets – modified cash basis can be found on page 7 of this report.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The table below provides a summary of the Council's net assets at June 30, 2011 and June 30, 2010.

Net Assets

	<u>2011</u>	<u>2010</u>
<u>Assets:</u>		
Cash and investments with fiscal agent	\$ 89,702,252	\$ 69,203,189
Total assets	<u>\$ 89,702,252</u>	<u>\$ 69,203,189</u>
<u>Net assets:</u>		
Unrestricted	<u>\$ 89,702,252</u>	<u>\$ 69,203,189</u>
Total net assets	<u>\$ 89,702,252</u>	<u>\$ 69,203,189</u>

Net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Council's net assets totaled \$89,702,252, an increase of \$20,499,063 over fiscal year 2010.

The table below shows the changes in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	<u>2011</u>	<u>2010</u>	Increase (Decrease)	Percentage Change
<u>Operating receipts:</u>				
Health benefit premium deposits	\$ 169,539,118	\$ 157,169,074	\$ 12,370,044	7.87%
COBRA deposits	517,356	506,444	10,912	2.15%
Flex Pro plan deposits	2,763,256	2,627,491	135,765	5.17%
Stop loss reimbursements	99,961	1,590,674	(1,490,713)	-93.72%
Rebates	3,744,333	2,287,154	1,457,179	63.71%
Screening fees	450	2,365	(1,915)	-80.97%
Total operating receipts	<u>176,664,474</u>	<u>164,183,202</u>	<u>12,481,272</u>	7.60%
<u>Operating disbursements:</u>				
Medical claims	146,321,632	141,387,209	4,934,423	3.49%
Life insurance	1,338,898	1,269,821	69,077	5.44%
Purchased services	9,561,491	8,576,341	985,150	11.49%
Supplies	8,315	2,189	6,126	279.85%
Other	119,129	139,962	(20,833)	-14.88%
Total operating disbursements	<u>157,349,465</u>	<u>151,375,522</u>	<u>5,973,943</u>	3.95%
<u>Non-operating receipts:</u>				
Interest	<u>1,184,054</u>	<u>1,137,856</u>	<u>46,198</u>	4.06%
Total non-operating receipts	<u>1,184,054</u>	<u>1,137,856</u>	<u>46,198</u>	4.06%
Change in net assets	20,499,063	13,945,536	6,553,527	46.99%
Net assets at beginning of year	<u>69,203,189</u>	<u>55,257,653</u>		
Net assets at end of year	<u>89,702,252</u>	<u>\$ 69,203,189</u>		

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The increase in operating receipts increased primarily due to two reasons. First, outstanding premiums from fiscal 2010 were collected in fiscal 2011. Also, the Council authorized an increase in funding for fiscal 2011 based on previous year claims and insurance trends.

Interest receipts increased in fiscal year 2011 despite lower interest rates because the Council had more cash available to invest.

Operating disbursements increased due to the increased cost of insurance premiums during fiscal 2011.

Current Financial Related Activities

The Council is a shared risk pool, formed to carry out a cooperative program for the provision and administration of health care benefits for members. The Council is constantly assessing insurance needs of its members and acting to provide these services cost-effectively.

The Council receives an actuarial opinion statement annually assessing the claims liability of the Council.

Contacting the Council's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Bartholomew, Treasurer, Stark County ESC, 2100 38th Street NW, Canton, Ohio 44709-2300 or by calling (330) 492-8136.

**BASIC
FINANCIAL STATEMENTS**

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2011**

Assets:	
Cash and investments with fiscal agent . . .	\$ 89,702,252
Total assets	<u>\$ 89,702,252</u>
Net assets:	
Unrestricted.	\$ 89,702,252
Total net assets	<u>\$ 89,702,252</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN NET ASSETS - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating receipts:	
Health benefit premium deposits	\$ 169,539,118
COBRA deposits	517,356
Flex Pro plan deposits	2,763,256
Stop loss reimbursements	99,961
Rebates	3,744,333
Screening fees	<u>450</u>
Total operating receipts	<u>176,664,474</u>
Operating disbursements:	
Medical claims	146,321,632
Life insurance	1,338,898
Purchased services	9,561,491
Supplies	8,315
Other	<u>119,129</u>
Total operating disbursements	<u>157,349,465</u>
Excess of operating receipts over operating disbursements	<u>19,315,009</u>
Non-operating receipts:	
Interest revenue	<u>1,184,054</u>
Total non-operating receipts	<u>1,184,054</u>
Change in net assets	20,499,063
Net assets at beginning of year	<u>69,203,189</u>
Net assets at end of year	<u><u>\$ 89,702,252</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE COUNCIL

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 Governmental Accounting Standards Board Statement No. 10 as amended by Governmental Accounting Standards Board Statement No. 30. 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, 2011, there were 74 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 from the Council back to its members. 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 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 a 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on the modified cash basis of accounting. The 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. In the financial statements for the enterprise fund, Financial Accounting Standards Board (FASB) guidance 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 the guidance conflicts with or contradicts GASB pronouncements, in which case GASB prevails. The Council does not apply FASB guidance issued after November 30, 1989, to its enterprise fund. Following are the more significant of the Council's accounting policies.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

The Council's basic financial statements consist of a statement of net assets - modified cash basis and statement of cash receipts, cash disbursements, and changes in net assets - modified cash basis.

B. Basis of Accounting

The Council's financial statements are prepared using the modified cash basis of accounting. Under the modified cash basis of accounting, 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. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved).

As a result of the use of the 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 accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Operating receipts are those receipts that are generated directly from the primary activity of the Council. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Council. All receipts and disbursements not meeting these definitions are reported as non-operating.

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 the governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an enterprise fund to account for its operations. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (disbursements) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of receipts, disbursements, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. Cash and Investments with Fiscal Agent

The Stark County Educational Service Center (the "Service Center") serves as fiscal agent for the Council. The Service Center maintains the Council's financial activity on the Service Center's books under a specific fund designated for Council activity. The Treasurer of the Service Center, acting as custodian of Council funds, invests monies on behalf of the Council. Investments maintained by the Service Center as fiscal agent include the State Treasury Asset Reserve of Ohio (STAR Ohio), money market accounts, a repurchase agreement, and federal government agency securities. These investments are valued at cost.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Council has invested funds in STAR Ohio during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State of Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2011.

An analysis of the Council's cash and investments with its fiscal agent at fiscal year-end is provided in Note 3.

E. Budgetary Process

The Council is not required to follow the budgetary process, but has elected 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 re-appropriated. The Council had \$52,128 in encumbrances outstanding at June 30, 2011.

A summary of 2011 budgetary activity appears in Note 4.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

The Service Center serves as the fiscal agent for the Council.

State statutes classify monies held by the Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Service Center 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 public deposits that the Board of Directors has identified as not required for use within the current five 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 deposits are deposits of interim monies. Interim monies are those monies which 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The carrying amount of cash and investments at June 30, 2011 was as follows:

	<u>Maturity (years)</u>	<u>Cost/ Carrying Value</u>
Demand deposits	-	(\$3,244,855)
State Treasury Asset Reserve of Ohio (STAR Ohio)	Less than 1	581,479
Money market accounts	Less than 1	352,402
Repurchase agreement	Less than 1	10,555,000
Federal National Mortgage Association	1 to 5	14,730,668
Federal Home Loan Mortgage Corporation	Less than 1	499,870
Federal Home Loan Mortgage Corporation	1 to 5	19,994,649
Federal Farm Credit Bank	Less than 1	1,498,615
Federal Farm Credit Bank	1 to 5	18,944,185
Federal Home Loan Bank	Less than 1	2,799,715
Federal Home Loan Bank	1 to 5	<u>22,990,524</u>
Total deposits and investments		<u><u>\$89,702,252</u></u>

Deposits:

Custodial credit risk is the risk that, in the event of bank failure, the Service Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Service Center. Demand deposits were covered by the Federal Deposit Insurance Corporation or collateralized with the financial institution's collateral pool.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Investments:

Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and Federal Home Loan Bank investments are held in book-entry form by the Federal Reserve, in the name of the Service Center's financial institution. The financial institution maintains records identifying the Service Center as the owner of these securities. Disclosures regarding investments of the Service Center are as follows:

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Service Center's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal government agency securities and repurchase agreement are held by the counterparty's trust department or agent but not in the Service Center's name and therefore are exposed to custodial credit risk. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: STAR Ohio and money market accounts carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The Service Center's federal government agency securities and the federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Concentration of Credit Risk: The Service Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at June 30:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
STAR Ohio	\$ 581,479	0.62
Repurchase agreement	10,555,000	11.36
Money market accounts	352,402	0.38
FNMA	14,730,668	15.85
FHLMC	20,494,519	22.05
FFCB	20,442,800	21.99
FHLB	<u>25,790,239</u>	<u>27.75</u>
Total	<u>\$ 92,947,107</u>	<u>100.00</u>

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2011 is as follows:

<u>2011 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	<u>\$ 167,400,000</u>	<u>\$ 177,848,528</u>	<u>\$ 10,448,528</u>

<u>2011 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Enterprise	<u>\$ 167,812,625</u>	<u>\$ 157,401,593</u>	<u>\$ 10,411,032</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

In consideration for its services, the 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, 2011, \$554,966 of such fees was paid to the Service Center by the Council.

NOTE 6 - 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 2011, the Council purchased specific stop-loss coverage of \$300,000 per individual and a maximum aggregate stop-loss coverage liability of \$169,555,606. The Council Treasurer makes monthly payments to the third party administrators for 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 (latest information available):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash and investments	\$ 89,702,252	\$ 69,203,189	\$ 55,257,653
Actuarial liabilities	13,719,000	12,937,000	11,902,000

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - RISK MANAGEMENT - (Continued)

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.

REQUIRED SUPPLEMENTARY INFORMATION

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

THREE-YEAR LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Council's cash receipts (including investment income) compared to related payments of claims and other cash disbursements made by the Council as of the end of each fiscal year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross received premiums and investment income.
- (2) This line shows non-claims related cash disbursements of the Council for each fiscal year including premiums, administrative fees, professional fees, and other miscellaneous cash disbursements.
- (3) This section shows the cumulative net amount of claims paid as of the end of the accident year.

The Council reports data on a modified cash basis. Premiums and investment income are recorded when received and unallocated cash disbursements and claims are recorded when paid by the Council. A claims liability is not recorded under the Council's modified cash basis of accounting.

Loss development information for the fiscal year ended June 30, 2011, 2010 and 2009 is as follows:

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

THREE-YEAR LOSS DEVELOPMENT INFORMATION

	<u>2009</u>	<u>2010</u>	<u>2011</u>
1. Premiums and investment income	\$ 150,876,665	\$ 165,321,058	\$ 177,848,528
2. Unallocated cash disbursements	9,926,548	9,988,313	11,027,833
3. Paid, cumulative as of:			
End of accident year	121,542,785	131,211,268	137,552,249
One year later	131,718,726	139,927,658	
Two years later	131,771,719		

NOTE: Information prior to 2009 is not available.

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters 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 financial statements of Stark County Schools Council of Governments as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated October 14, 2011, wherein we noted the Stark County Schools Council of Governments prepares its financial statements on the modified cash basis of accounting, a comprehensive basis of accounting other 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 Stark County Schools Council of Governments' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Stark County Schools Council of Governments' internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Stark County Schools Council of Governments' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Stark County Schools Council of Governments' financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Stark County Schools Council of Governments

Compliance and Other Matters

As part of reasonably assuring whether the Stark County Schools Council of Governments' 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*.

We intend this report solely for the information and use of the management, Board of Directors, and others within the Stark County Schools Council of Governments. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
October 14, 2011



Dave Yost • Auditor of State

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
DECEMBER 15, 2011**