

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011





# Dave Yost • Auditor of State

Board of Directors  
Fulton-Henry Counties Council  
152 S. Fulton Street  
Wauseon, Ohio 43567

We have reviewed the *Independent Auditor's Report* of the Fulton-Henry Counties Council, Fulton County, prepared by Weber O'Brien Ltd., for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fulton-Henry Counties Council is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

September 30, 2013

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FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO

TABLE OF CONTENTS

Independent Auditor's Report	1 - 3
Management's Discussion and Analysis (Unaudited)	4 - 7
Combined Statements of Net Position and Activities - Modified Cash Basis	8
Notes to Financial Statements	9 - 15
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	16 - 17
Schedule of Findings and Responses	18
Summary Schedule of Prior Audit Findings	19

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Fulton - Henry Counties Council  
152 S. Fulton Street  
Wauseon, Ohio 43567

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Fulton - Henry Counties Council, a component unit of Fulton County, Ohio (the "Council"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of Fulton - Henry Counties Council as of December 31, 2012 and 2011, and the respective changes in financial position - modified cash basis, thereof for the years then ended in accordance with the basis of accounting as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **Cessation of Operations**

As more fully described in Note 5, the Council has ceased active operations as a health insurance risk pool. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Council's basic financial statements. Management's discussion and analysis includes tables of net position and change in net position. These tables are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The tables included in management's discussion and analysis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the tables included in management's discussion and analysis are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other than the aforementioned procedures applied to the tables, all other information included in management's discussion and analysis has not been subjected to the auditing procedures in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2013, 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.

A handwritten signature in cursive script that reads "Nelson O'Brien Ltd".

July 26, 2013

**FULTON - HENRY COUNTIES COUNCIL,  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2012 and 2011  
Unaudited**

The following Management's Discussion and Analysis (MD&A) provides a summary overview of the financial performance of Fulton - Henry Counties Council, a component unit of Fulton County, Ohio (the "Council") for the years ended December 31, 2012 and 2011. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Council's financial performance.

**Financial Highlights**

Key financial highlights for 2012 and 2011 are as follows:

- The Council's activities are all accounted for in a single proprietary fund.
- In total, net position decreased \$298,527 and \$635,874, respectively.
- Charges for services accounted for \$2,349,007 (100%) of all receipts in 2011. There were no charges for services in 2012 due to the Council ceasing active operations as a health insurance risk pool effective January 1, 2012. Claims paid were \$211,172 (71%) and \$1,993,096 (67%), while disbursements for administrative fees, professional fees, and excess reinsurance premiums were \$62,792 (21%) and \$479,488 (16%) of total disbursements of \$298,564 and \$2,992,193, respectively.
- Disbursements to a withdrawing member, Henry County, was \$11,921 (4%) and \$472,363 (16%) of total disbursements of \$298,564 and \$2,992,193, respectively.

**Using the Basic Financial Statements**

This annual report consists of financial statements and notes to those statements. Under Governmental Accounting Standard Board (GASB) No. 14, the Fulton County, Ohio is defined as a "primary government" and the Council is considered a component unit of the primary government. The Council's financial activities are accounted for in a single enterprise fund using the modified cash basis of accounting. The combined statements of net position and activities - modified cash basis provide information about the modified cash basis financial position and activities of the Council.

**FULTON - HENRY COUNTIES COUNCIL,  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
Years Ended December 31, 2012 and 2011  
Unaudited**

Table 1 provides a summary of the Council's net position as of December 31, 2012, 2011, and 2010.

**Table 1  
Net Position**

	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
<b><u>Assets:</u></b>			
Cash and Investments	<u>\$1,624,542</u>	<u>\$1,923,069</u>	<u>\$2,558,943</u>
<b><u>Net Position:</u></b>			
Unrestricted Net Position	<u>\$1,624,542</u>	<u>\$1,923,069</u>	<u>\$2,558,943</u>

Table 2 reflects the changes in net position for the years ended December 31, 2012, 2011, and 2010.

**Table 2  
Change in Net Position**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>Receipts:</u></b>			
Charges for Services	\$ -0-	\$2,349,007	\$3,049,756
Stop Loss Recoveries	-0-	5,880	182,019
Earnings on Investments	<u>37</u>	<u>1,432</u>	<u>3,180</u>
<b>Total Receipts</b>	<u>37</u>	<u>2,356,319</u>	<u>3,234,955</u>
<b><u>Disbursements:</u></b>			
Claims Paid	211,172	1,993,096	3,109,771
Stop Loss Premiums	-0-	263,684	330,004
Administrative Fees	56,148	173,656	47,765
Professional Fees	6,644	42,148	43,633
Disbursements to a Withdrawing Member	11,921	472,363	-0-
Other Expenses	<u>12,679</u>	<u>47,246</u>	<u>33,726</u>
<b>Total Disbursements</b>	<u>298,564</u>	<u>2,992,193</u>	<u>3,564,899</u>
<b>Change in Net Position</b>	<u>(\$298,527)</u>	<u>(\$ 635,874)</u>	<u>(\$ 329,944)</u>

Charges for services as the primary revenue source supporting the Council's insurance activities, is apparent. Charges for services are determined each year by the governing board of the Council in conjunction with consulting specialists. Approximately 100% of receipts for 2011 are charges for services for insurance premiums and claims costs. Charges for services for 2012 decreased \$2,349,007 from 2011 due to the Council ceasing active operations as a health insurance risk pool effective January 1, 2012. Charges for services for 2011 decreased \$700,749 from 2010 due to the loss of a member of the Council, Henry County, effective January 1, 2011. There were no receipts from Henry County in 2011, only from Fulton County.

**FULTON - HENRY COUNTIES COUNCIL,  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
Years Ended December 31, 2012 and 2011  
Unaudited**

Claims paid decreased by \$1,781,924 in 2012 from 2011 due to the Council ceasing active operations as a health insurance risk pool effective January 1, 2012. The claims paid in 2012 are for claims that occurred in 2011 by Fulton County employees and were paid in 2012. There were no stop loss recoveries in 2012. Claims paid decreased \$1,116,675 in 2011 from 2010 due to the loss of a member of the Council, Henry County, effective January 1, 2011. Stop loss recoveries decreased by \$176,139 in 2011 from 2010 due to four large claims over the stop loss limit of \$100,000 in 2010 versus two small claims over the limit in 2011.

There were no stop loss premiums paid in 2012 due to the Council ceasing active operations as a health insurance risk pool effective January 1, 2012. The Council had stop loss coverage for the period January 1, 2012 to June 30, 2012 in which the premium for this covered period was paid in December 2011 of approximately \$52,000. Stop loss premiums paid in 2011 decreased \$66,320 from 2010 due to the loss of a member of the Council, Henry County, effective January 1, 2011. Henry County did not pay any stop loss premiums in 2011 other than for the December 2010 premium paid in January 2011. The decrease in premiums due to the loss of a member is netted against the additional \$52,000 in premiums paid in 2011 for the period January 1, 2012 to June 30, 2012.

Administrative fees paid in 2012 decreased \$117,508 from 2011 due to the Council ceasing active operations as a health insurance pool effective January 1, 2012. The only administrative fees paid in 2012 were to the claims processor who processed the claims incurred in 2011 that were paid in 2012. Administrative fees paid in 2011 increased \$125,891 from 2010 due to the administrative fees charged by the claims processor in 2010 being deferred until 2011.

**Current Issues**

Effective January 1, 2011, Henry County elected to no longer provide health insurance benefits to its employees through the Council. Claims of Henry County employees incurred prior to January 1, 2011 were paid by the Council through July 2011. During 2011 and 2012, Henry County received approximately \$484,000 as payment for its interest in the net position of the Council.

Effective January 1, 2012, Fulton County elected to no longer provide health insurance benefits to its employees through the Council. Claims incurred by Fulton County employees prior to January 1, 2012 as well as additional expenses incurred by the Council were paid by the Council through December 2012. Any remaining unpaid claims of Fulton County employees as of December 31, 2012 were the responsibility of Fulton County. No distributions were made to Fulton County for its interest in the net position of the Council in 2012.

As a result of the matters described in the preceding two paragraphs, the Council ceased active operations as a health insurance risk pool effective January 1, 2012. During 2012, the claims incurred by Fulton County employees prior to January 1, 2012 as well as additional expenses incurred by the Council were paid.

FULTON - HENRY COUNTIES COUNCIL,  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
Years Ended December 31, 2012 and 2011  
Unaudited

Contacting the Council's Financial Management

This financial report is designed to provide a general overview of the Council's finances and to reflect the Council's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Vond Hall, Treasurer, Fulton - Henry Counties Council, c/o Fulton County, 152 S. Fulton Street, Wauseon, Ohio, 43567, or by telephone at (419) 337-9255.

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
COMBINED STATEMENTS OF NET POSITION AND ACTIVITIES-MODIFIED CASH BASIS  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>OPERATING RECEIPTS</b>		
Charges for Services	\$ -0-	\$ 2,349,007
Stop Loss Recoveries	<u>-0-</u>	<u>5,880</u>
<b>TOTAL OPERATING RECEIPTS</b>	<b>-0-</b>	<b>2,354,887</b>
<b>OPERATING DISBURSEMENTS</b>		
Claims Paid	211,172	1,993,096
Stop Loss Premiums	-0-	263,684
Administrative Fees	56,148	173,656
Professional Fees	6,644	42,148
Other Expenses	<u>12,679</u>	<u>47,246</u>
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b>286,643</b>	<b>2,519,830</b>
<b>EXCESS OF OPERATING DISBURSEMENTS OVER OPERATING RECEIPTS</b>	<b>( 286,643)</b>	<b>( 164,943)</b>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>		
Earnings on Investments	37	1,432
Disbursements to Withdrawing Member	<u>( 11,921)</u>	<u>( 472,363)</u>
<b>TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>	<b>( 11,884)</b>	<b>( 470,931)</b>
<b>CHANGE IN NET POSITION</b>	<b>( 298,527)</b>	<b>( 635,874)</b>
<b>NET POSITION (UNRESTRICTED) - BEGINNING OF YEAR</b>	<u>1,923,069</u>	<u>2,558,943</u>
<b>NET POSITION (UNRESTRICTED) - END OF YEAR</b>	<u>\$ 1,624,542</u>	<u>\$ 1,923,069</u>

"The Accompanying Notes are an Integral  
Part of the Basic Financial Statements"

**FULTON - HENRY COUNTIES COUNCIL**  
**A COMPONENT UNIT OF FULTON COUNTY, OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended December 31, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Entity**

The Fulton-Henry Counties Council (the "Council") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council is directed by a Board of Directors under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments. The Council was formed in 1992 for the primary purpose of providing health care benefits to employees of its members. As of December 31, 2012, Fulton County is the sole member of the Council.

**Reporting Entity**

For financial reporting purposes, the Council is a component unit of Fulton County, Ohio as Fulton County appoints the Council's Board of Directors and is financially accountable for the Council.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. Based on these criteria, the Council is determined to be a component unit of Fulton County, Ohio.

**Basis of Accounting**

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

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

**FULTON - HENRY COUNTIES COUNCIL**  
**A COMPONENT UNIT OF FULTON COUNTY, OHIO**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**Years Ended December 31, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Use of Estimates**

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

**Budgetary Process**

The Council is not required to prepare a budget in accordance with the Ohio Revised Code. Accordingly, a statement of actual to budget has not been included in these financial statements.

**Cash and Investments**

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

During 2011 and 2012, the Council invested in certificates of deposit, U.S. agency securities, and money market mutual funds. Investments are reported at cost, except for money market mutual funds. Money market mutual funds are recorded at share values reported by the mutual fund.

**Fund Accounting**

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

**Charges for Services**

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

**FULTON - HENRY COUNTIES COUNCIL**  
**A COMPONENT UNIT OF FULTON COUNTY, OHIO**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**Years Ended December 31, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Charges for Services, Continued**

Each member's contributions, payments for claims on behalf of the member's beneficiaries, and share of stop loss premiums and administrative expenses are accounted for in a separate fund. Upon withdrawal from the Council, members will receive, after payment of all claims and other expenses by the Council, the balance remaining in the member's separate fund.

**Reinsurance**

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

**Subsequent Events**

Management has evaluated events and transactions from December 31, 2012 through July 26, 2013, for possible recognition or disclosure in these financial statements. This date is the date these financial statements were available to be issued. Management concluded there were no subsequent events requiring recognition or disclosure.

**NOTE 2 - EQUITY IN CASH AND INVESTMENTS**

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

Monies held by the Council are classified into three categories.

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

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

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Years Ended December 31, 2012 and 2011

NOTE 2 - EQUITY IN CASH AND INVESTMENTS, CONTINUED

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

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

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

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Years Ended December 31, 2012 and 2011

**NOTE 2 - EQUITY IN CASH AND INVESTMENTS, CONTINUED**

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

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

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

**Depository Credit Risk**

The Council maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed Federal Deposit Insurance Corporation limits. There were no excess uninsured amounts at both December 31, 2012 and 2011.

**Investments**

As of December 31, 2012 and 2011, the Council had the following investments, all maturing in two years or less:

<b>Investments - December 31, 2012</b>	<b><u>Carrying Amount</u></b>	<b><u>Fair Value</u></b>
Money Market Mutual Funds	<u>\$1,624,542</u>	<u>\$1,624,612</u>
<b>Total Investments</b>	<b><u>\$1,624,542</u></b>	<b><u>\$1,624,612</u></b>
<b>Investments - December 31, 2011</b>	<b><u>Carrying Amount</u></b>	<b><u>Fair Value</u></b>
Money Market Mutual Funds	<u>\$1,923,069</u>	<u>\$1,923,069</u>
<b>Total Investments</b>	<b><u>\$1,923,069</u></b>	<b><u>\$1,923,069</u></b>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from interest rates and according to State law, the Council's investment policy limits investment maturities to five years or less. Commercial paper must mature within 180 days and repurchase agreements must mature within 30 days.

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Years Ended December 31, 2012 and 2011

**NOTE 2 - EQUITY IN CASH AND INVESTMENTS, CONTINUED**

*Credit Risk:* The Council's investment policy limits investments to securities specifically authorized by the Ohio Revised Code. As of December 31, 2012 and 2011, the Council's investments consisted of Huntington Funds U.S. Treasury Money Market Fund which was rated AAAM by Standard & Poor's.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Council's investment in Huntington Funds U.S. Treasury Money Market Mutual Fund is not exposed to custodial credit risk because, as an open-end money-market mutual fund, its existence is not evidenced by securities that exist in physical or book-entry form. The Council 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.

*Concentration of Credit Risk* - The Council places no limit on the amount it may invest in any one issuer.

**NOTE 3 - RELATED PARTY TRANSACTION**

Fulton County serves as Fiscal Agent for the Council. The Fiscal Agent is responsible for administering the financial transactions of the Council and is compensated for these services. The total amount paid to Fulton County for the services provided for the years ended December 31, 2012 and 2011 was \$-0- and \$36,659, respectively.

**NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLE**

For 2011, the Council has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" and GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Years Ended December 31, 2012 and 2011

**NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLE, CONTINUED**

GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position.

The implementation of these GASB statements was incorporated in the Council's 2011 financial statements; however, there was no effect on beginning net position.

**NOTE 5 - CESSATION OF OPERATIONS**

As of January 1, 2011, Henry County elected to no longer provide health insurance benefits to its employees through the Council. Claims of Henry County employees incurred prior to January 1, 2011 and reported to the Council were paid by the Council through July 2011. Claims incurred prior to January 1, 2011, but unreported at July 31, 2011 are the responsibility of Henry County. Payments on behalf of Henry County employees in 2011 for claims incurred prior to January 1, 2011 were approximately \$105,900. During 2011 and 2012, Henry County received approximately \$484,000 for its interest in the net position of the Council.

As of January 1, 2012, Fulton County elected to no longer provide health insurance benefits to its employees through the Council. Claims of Fulton County employees incurred prior to January 1, 2012 and reported to the Council were paid by the Council through December 2012. Claims incurred prior to January 1, 2012, but unreported at December 31, 2012, are the responsibility of Fulton County. Payments on behalf of Fulton County employees in 2012 for claims incurred prior to January 1, 2012 were approximately \$211,200.

Management believes that the Council has no liability for incurred but not reported claims as of December 31, 2012.



**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**

Board of Directors  
Fulton - Henry Counties Council  
152 S. Fulton Street  
Wauseon, Ohio 43567

We have audited, in accordance with the 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 modified cash basis financial statements of Fulton - Henry Counties Council, a component unit of Fulton County, Ohio (the "Council"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 26, 2013.

**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 the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider Finding 2012-01 described in the accompanying schedule of findings and responses to be a material weakness. 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.

### **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*.

We noted a certain other matter that we reported to management of Fulton - Henry Counties Council in a separate letter dated July 26, 2013.

### **The Council's Response to Findings**

Fulton - Henry Counties Council's response to the finding identified in our audits is described in the accompanying schedule of findings and responses. The Council's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

### **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.



July 26, 2013

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012

Finding 2012 - 01

Material Weakness

Statement of Condition: The Council does not have the expertise to prepare annual financial statements and related footnotes in accordance with its basis of reporting.

Criteria: Statement on Auditing Standards AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate in writing when an organization does not have the expertise to prepare annual financial statements and related footnotes in accordance with its basis of reporting.

Effect of Condition: This condition could result in errors in the financial statements or notes thereto not being detected by management.

Cause of Condition: The Council does not employ an individual with the expertise necessary to prepare annual financial statements and the related footnotes.

Recommendation: We recommend that the Council consider obtaining the required skills and knowledge through means such as training of present personnel or adding knowledgeable personnel to its staff to prepare the financial statements.

Management's Response: Management does not feel that it is cost effective to employ personnel with the specialized knowledge necessary for the limited purpose of preparing its annual financial statements, including notes to the financial statements, in accordance with its basis of reporting.

FULTON - HENRY COUNTIES COUNCIL  
A COMPONENT UNIT OF FULTON COUNTY, OHIO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2012

Finding 2010-01

Material Weakness

Statement of Condition: The Council does not have the expertise to prepare annual financial statements and related footnotes in accordance with its basis of reporting.

Current Status: This finding has not been corrected and has been repeated as Finding 2012-01.

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# Dave Yost • Auditor of State

**FULTON-HENRY COUNTIES COUNCIL**

**FULTON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 15, 2013**