

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2014***

TAMRA HURST, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Stark County Schools Council, Stark County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 3, 2014

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Stark County Schools Council of Governments, Stark County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the Stark County Schools Council of Governments' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Stark County Schools Council of Governments' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Stark County Schools Council of Governments' internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Stark County Schools Council of Governments, Stark County, Ohio, as of June 30, 2014, and the respective changes in modified cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Stark County Schools Council of Governments' financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* (pages 3 - 5) includes tables of net position and change in net position. These tables and the six-year loss development (pages 16 - 17) information provide additional analysis and are not a required part of the basic financial statements.

These tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this 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, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in *Management's Discussion & Analysis* or the six-year loss development information, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of the 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Stark County Schools Council of Governments' internal control over financial reporting and compliance.



Julian & Grube, Inc.
September 25, 2014

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, 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 2014 are as follows:

- In total, net position was \$98,806,139 at June 30, 2014.
- The Council had operating receipts of \$204,516,601 and operating disbursements of \$189,099,091 for fiscal year 2014. The Council received \$405,322 in interest receipts during the year. During fiscal year 2014, the Council paid a refund to Boardman Local School District, which terminated its membership in the Council, of \$2,420,786. Total change in net position for fiscal year 2014 was an increase of \$13,402,046.

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 position - modified cash basis and the statement of cash receipts, cash disbursements, and changes in net position – modified cash basis provide information about the activities of the Council.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The statement of net position – modified cash basis and the statement of cash receipts, cash disbursements, and changes in net position – modified cash basis answer this question. These statements include only net position 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 position and changes in that position on a modified cash basis. This change in net position 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 position – modified cash basis can be found on page 6 of this report and the statement of cash receipts, cash disbursements, and changes in net position – 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, 2014

The table below provides a summary of the Council's net position at June 30, 2014 and June 30, 2013.

Net Position

	<u>2014</u>	<u>2013</u>
<u>Assets:</u>		
Cash and investments with fiscal agent	\$ 98,806,139	\$ 85,404,093
Total assets	<u>\$ 98,806,139</u>	<u>\$ 85,404,093</u>
<u>Net position:</u>		
Unrestricted	<u>\$ 98,806,139</u>	<u>\$ 85,404,093</u>
Total net position	<u>\$ 98,806,139</u>	<u>\$ 85,404,093</u>

Net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the Council's net position totaled \$98,806,139, an increase of \$13,402,046 from fiscal year 2013.

The table below shows the changes in net position for fiscal years 2014 and 2013.

Change in Net Position

	<u>2014</u>	<u>2013</u>	Increase (Decrease)	Percentage Change
<u>Operating receipts:</u>				
Health benefit premium deposits	\$ 197,244,142	\$ 168,804,055	\$ 28,440,087	16.85%
COBRA deposits	305,258	252,475	52,783	20.91%
Flex Pro plan deposits	2,720,071	2,616,530	103,541	3.96%
Rebates	4,174,148	3,106,442	1,067,706	34.37%
Refunds	41,182	181,634	(140,452)	-77.33%
ACA legal fees	31,800	-	31,800	100.00%
Total operating receipts	<u>204,516,601</u>	<u>174,961,136</u>	<u>29,555,465</u>	
<u>Operating disbursements:</u>				
Medical claims	179,287,670	166,506,511	12,781,159	7.68%
Life insurance	1,398,100	1,389,438	8,662	0.62%
Purchased services	8,314,676	7,905,969	408,707	5.17%
Supplies	3,893	1,716	2,177	126.86%
Other	94,752	118,189	(23,437)	-19.83%
Total operating disbursements	<u>189,099,091</u>	<u>175,921,823</u>	<u>13,177,268</u>	
<u>Non-operating receipts (disbursements):</u>				
Interest	405,322	585,847	(180,525)	-30.81%
Refund to Boardman Local School District	<u>(2,420,786)</u>	<u>(1,217,397)</u>	<u>(1,203,389)</u>	98.85%
Total non-operating receipts (disbursements)	<u>(2,015,464)</u>	<u>(631,550)</u>	<u>(1,383,914)</u>	
Change in net position	13,402,046	(1,592,237)	14,994,283	
Net position at beginning of year	<u>85,404,093</u>	<u>86,996,330</u>		
Net position at end of year	<u>\$ 98,806,139</u>	<u>\$ 85,404,093</u>		

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The increase in operating receipts and disbursements can be attributed to primarily one reason. The number of the members of the Council increased from 79 to 86 during fiscal year 2014.

Interest receipts decreased in fiscal year 2014 because of lower interest rates.

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 Ms. Tamra Hurst, 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 POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

Assets:	
Cash and investments with fiscal agent . . .	\$ 98,806,139
Total assets	<u>\$ 98,806,139</u>
Net position:	
Unrestricted.	\$ 98,806,139
Total net position	<u>\$ 98,806,139</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 POSITION - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating receipts:	
Health benefit premium deposits	\$ 197,244,142
COBRA deposits	305,258
Flex Pro plan deposits.	2,720,071
Rebates	4,174,148
Refunds.	41,182
ACA legal fees.	<u>31,800</u>
Total operating receipts	<u>204,516,601</u>
Operating disbursements:	
Medical claims	179,287,670
Life insurance.	1,398,100
Purchased services	8,314,676
Supplies.	3,893
Other	<u>94,752</u>
Total operating disbursements.	<u>189,099,091</u>
Excess of operating receipts over operating disbursements	<u>15,417,510</u>
Non-operating receipts (disbursements):	
Interest revenue	405,322
Refund to Boardman Local School District.	<u>(2,420,786)</u>
Total non-operating receipts (disbursements).	<u>(2,015,464)</u>
Change in net position	13,402,046
Net position at beginning of year.	<u>85,404,093</u>
Net position at end of year	<u><u>\$ 98,806,139</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, there were 86 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.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

A. Basis of Presentation

The Council's basic financial statements consist of a statement of net position - modified cash basis and statement of cash receipts, cash disbursements, and changes in net position - 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 position 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, U.S. Treasury notes and federal government agency securities. These investments are valued at cost.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

The Council has invested funds in STAR Ohio during fiscal year 2014. 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, 2014.

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 \$25,581 in encumbrances outstanding at June 30, 2014.

A summary of 2014 budgetary activity appears in Note 4.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014 was as follows:

	<u>Maturity (years)</u>	<u>Cost/ Carrying Value</u>
Demand deposits	-	\$2,536,169
State Treasury Asset Reserve of Ohio (STAR Ohio)	Less than 1	184,178
Money market accounts	Less than 1	78,536
Repurchase agreement	Less than 1	37,000,000
U.S. Treasury Notes	Less than 1	749,464
U.S. Treasury Notes	1 to 5	2,989,754
Federal National Mortgage Association	Less than 1	1,999,150
Federal National Mortgage Association	1 to 5	16,510,251
Federal Home Loan Mortgage Corporation	1 to 5	8,990,061
Federal Farm Credit Bank	Less than 1	3,347,912
Federal Farm Credit Bank	1 to 5	8,495,283
Federal Home Loan Bank	Less than 1	1,343,749
Federal Home Loan Bank	1 to 5	<u>14,581,632</u>
Total deposits and investments		<u><u>\$98,806,139</u></u>

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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.

Investments:

Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Federal Home Loan Bank and U.S. Treasury note 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, U.S. Treasury notes 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, U.S. Treasury notes and the federal agency securities that underlie the repurchase agreement were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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	\$ 184,178	0.19
Repurchase agreement	37,000,000	38.43
Money market accounts	78,536	0.08
U.S. Treasury notes	3,739,218	3.89
FNMA	18,509,401	19.23
FHLMC	8,990,061	9.34
FFCB	11,843,195	12.30
FHLB	<u>15,925,381</u>	<u>16.54</u>
 Total	 <u>\$ 96,269,970</u>	 <u>100.00</u>

NOTE 4 - BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2014 is as follows:

<u>2014 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	<u>\$ 183,435,000</u>	<u>\$ 204,921,923</u>	<u>\$ 21,486,923</u>

<u>2014 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Enterprise	<u>\$ 194,710,000</u>	<u>\$ 191,545,458</u>	<u>\$ 3,164,542</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, 2014, \$320,158 of such fees was paid to the Service Center by the Council.

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014, the Council purchased specific stop-loss coverage of \$500,000 per individual and a maximum aggregate stop-loss coverage liability of \$211,533,898. 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>2014</u>	<u>2013</u>	<u>2012</u>
Cash and investments	\$ 98,806,139	\$ 85,404,093	\$ 86,996,330
Actuarial liabilities	16,136,000	15,314,000	15,897,000

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.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the Council has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Council.

SUPPLEMENTARY INFORMATION

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

SIX-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 years ended June 30, 2014, 2013, 2012, 2011, 2010 and 2009 is as follows:

STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

SIX-YEAR LOSS DEVELOPMENT INFORMATION

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1. Premiums and investment income	\$ 150,876,665	\$ 165,321,058	\$ 177,848,528	\$ 165,688,317	\$ 175,546,983	\$ 197,649,464
2. Unallocated cash disbursements	9,926,548	9,988,313	11,027,833	9,103,048	10,632,709	12,232,207
3. Paid, cumulative as of:						
End of accident year	121,542,785	131,211,268	137,552,249	147,517,680	155,585,691	167,387,425
One year later	131,718,726	139,927,658	149,249,915	158,419,213	167,525,995	
Two years later	131,771,719	139,996,077	149,238,435	158,359,928		
Three years later	131,779,145	140,009,468	149,253,675			
Four years later	131,796,521	140,009,536				
Five years later	131,800,439					

NOTE: Information prior to 2009 is not available.



Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Stark County Schools Council of Governments, Stark County, Ohio as of and for the fiscal year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the Stark County Schools Council of Governments' basic financial statements and have issued our report thereon dated September 25, 2014, wherein we noted the Stark County Schools Council of Governments uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Stark County Schools Council of Governments' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Stark County Schools Council of Governments' internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Stark County Schools Council of Governments' financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Stark County Schools Council of Governments' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Stark County Schools Council of Governments' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Julian & Grube, Inc.
September 25, 2014



Dave Yost • Auditor of State

STARK COUNTY SCHOOL 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
OCTOBER 16, 2014**