

Ashtabula County Schools
Council of Governments
Ashtabula County, Ohio

Audited Financial Statement

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
Ashtabula County Schools Council of Governments
1565 State Route 167
Jefferson, OH 44047

We have reviewed the *Independent Auditor's Report* of the Ashtabula County Schools Council of Governments, Ashtabula County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Ashtabula County Schools Council of Governments is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 30, 2015

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

**AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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September 30, 2015

To the Governing Board
Ashtabula County Schools Council of Governments
1565 State Route 57
Jefferson, Oh 44047

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Ashtabula County Schools Council of Governments, Ashtabula County, Ohio (the Council) as of and for the year ended June 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 Council's 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 Council's 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Council prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Council does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2015, or changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance of Ashtabula County Schools Council of Governments, Ashtabula County, Ohio as of June 30, 2015, and its cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Council's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | General |
|--|---------------|
| RECEIPTS: | |
| Receipts from Members Districts | \$ 17,395,422 |
| Interest | 19,540 |
| Stop Loss Insurance Reimbursements | 980,160 |
| Voids/Refunds | 123,978 |
| COBRA Payments | 36,619 |
| Total Receipts | 18,555,719 |
| DISBURSEMENTS: | |
| Payments to Third-Party Administrator | 14,214,440 |
| Purchased Services | 32,506 |
| Insurance | 350 |
| Liability Expenses | 4,913 |
| Actuarial Report | 1,000 |
| Miscellaneous | 7,575 |
| Service Fees | 124,687 |
| Affordable Care Act Transitional Reinsurance Program | 129,875 |
| Health Action Council Annual Access Fee | 3,641 |
| Total Disbursements | 14,518,987 |
| Excess of Receipts over Disbursements | 4,036,732 |
| FUND CASH BALANCES, July 1, 2014 | 11,691,649 |
| FUND CASH BALANCES, June 30, 2015 | |
| Unassigned | \$ 15,728,381 |

The accompanying notes are an integral part of this financial statement.

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 – DESCRIPTION OF THE ENTITY

The Ashtabula County Schools Council of Governments, Ashtabula County, (the Council) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No.30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council by-laws.

The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2015 there were seven participating 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 flow, resulting in a transfer of all risk. The Board of Directors annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made under the Health Benefits Plan by covered persons which would not be paid aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

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

A. Basis of Accounting

The Council’s financial statement follows the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Council’s financial statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

B. Fund Accounting

The Council maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council maintains a general fund to account for its expendable financial resources and related current expenses.

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

C. Budgetary Process

The Council is not required to follow the budgetary process but has adopted a formal budget annually as part of their by-laws.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund/function level of control. The Board annually approves appropriation measures and subsequent amendments.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of July 1.

Encumbrances

The Council reserves (encumbers) appropriations when commitments are made. A summary of 2015 budgetary activity appears in Note 4.

D. Cash and Investments

Investments are reported as assets and are carried at cost, which approximates fair value. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Council must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Council classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

3. Committed

The Board can *commit* amounts via formula action (resolution). The Council must adhere to these commitments unless the Board amends the resolution. Committed fun balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purpose but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* amounts represent intended uses established by Council or a Council official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance. The Council applies restricted resources fist when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used.

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Council maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30 was as follows:

| | |
|--------------------------------|---------------|
| | 2015 |
| Demand Deposits | \$ 9,728,381 |
| CDARS | 6,000,000 |
| Total deposits and investments | \$ 15,728,381 |

Custodial credit risk for deposits is the risk that in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution’s public entity deposit pool.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Council from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 – BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2015 follows:

| 2015 Budgeted vs. Actual Receipts | | |
|-----------------------------------|-----------------|----------|
| Budgeted Receipts | Actual Receipts | Variance |
| \$ 18,547,786 | \$ 18,555,719 | \$ 7,933 |

| 2015 Budgeted vs. Actual Expenditures | | |
|---------------------------------------|---------------|-------------|
| Appropriations | Expenditures | Variance |
| \$ 14,507,970 | \$ 14,518,987 | \$ (11,017) |

NOTE 5 - RISK MANAGEMENT

The Council contracted with a third party administrator, Anthem Benefit Administrators, Inc for the year ended June 30, 2015, to process and pay health benefit claims incurred by its members. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, and administrative charges. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Council members. Member school districts, whose claims exceed premiums paid, will carry a negative fund balance for which interest is assessed on. When the balance is no longer negative, interest will no longer be assessed.

The Council employs stop-loss coverage to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from reinsurers, although it does not discharge their primary liability.

NOTE 6 - EXPECTED LOSS AND ALLOCATED LOSS ADJUSTMENT EXPENSE

The Council receives an annual actuarial report that estimates an amount for the runoff liability (expected loss and allocated loss adjustment expense) for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the year ended June 30, 2015. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2015 is as follows:

| | |
|----------------------------|---------------|
| | 2015 |
| Cash and Investments | \$ 15,728,381 |
| IBNR Actuarial Liabilities | 1,300,000 |
| Excess Funds | \$ 14,428,381 |

September 30, 2015

To the Governing Board
Ashtabula County Schools Council of Governments
1565 State Route 57
Jefferson, Oh 44047

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

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 Ashtabula County Schools Council of Governments, Ashtabula County, Ohio (the Council) as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated September 30, 2015 wherein we noted the Council followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-09(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Council's 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 Council's 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 Council's 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.

Compliance and Other Matters

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

ASHTABULA 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, 2015**