

**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005



**Auditor of State
Betty Montgomery**

Board of Directors
Wayne County Schools Council
7571 North Elyria Road
West Salem, Ohio 44287

We have reviewed the *Report of Independent Accountants* of the Wayne County Schools Council, Wayne County, prepared by Knox & Knox, CPAs, for the audit period July 1, 2004 through June 30, 2006. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Wayne County Schools Council is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 21, 2006

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**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

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KNOX & KNOX

Accountants and Consultants

REPORT OF INDEPENDENT ACCOUNTANTS

Wayne County Schools Council
Wayne County
7571 North Elyria Road
West Salem, Ohio 44287

To the Board of Directors:

We have audited the accompanying financial statements of the Wayne County Schools Council, Wayne County, Ohio, (the Council) as of and for the years ended June 30, 2006, and June 30, 2005. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Council has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Council to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2006 and 2005. While the Council does not follow GAAP, auditing standards generally accepted in the United States of America require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to reformat its statements. Since the Council does not use GAAP to measure the financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended June 30, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of Wayne County Schools Council as of June 30, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

KNOX & KNOX

Orrville, Ohio
September 22, 2006

**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND
TYPE FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	Enterprise Fund	
	2006	2005
Operating Cash Receipts:		
Health Benefit Premium Deposits	\$5,505,173	\$5,397,711
Operating Cash Disbursements:		
Current:		
Medical Claims	5,641,356	4,897,232
Administrative Fees	628,979	666,442
Other	17,363	22,414
Total Operating Cash Disbursements	6,287,698	5,586,088
Operating Income (Loss)	(782,525)	(188,377)
Non-operating Cash Receipts		
Earnings on Investments	35,774	27,952
Net Cash Receipts Over/ (Under) Cash Disbursements	(746,751)	(160,425)
Fund Cash Balances, July 1	1,426,571	1,586,996
Fund Cash Balances, June 30	\$ 679,820	\$ 1,426,571

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

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**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Wayne County Schools Council, Wayne County, (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 the Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provision and administration of health care benefits for member employees and to promote other cooperative programs 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, treasurer, or executive officer from each member District. As of June 30, 2006, there were 5 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 is the advisory body of the Council and is comprised of 5 individuals, including the Treasurer of North Central Local School district 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 three-fourths vote of the participating members. Upon such termination, the net reserve will be transferred to all 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.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The investment in STAR Ohio (the Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Investments (continued)

Investments are included in the fund cash balance. 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.

D. Fund Accounting

The Council maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public money, management control, accountability or other purposes.

E. Budgetary Process

The Council is not required to follow the budgetary process, but has decided to adopt a formal budget annually.

1. Appropriations

The Board annually approves measures and subsequent amendments to prevent budgetary expenditures from exceeding appropriations. 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 (encumbered) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 2.

**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

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

2. BUDGETARY ACTIVITY

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,286,099	\$5,540,947	\$254,848

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$5,904,483	\$6,287,698	(\$383,215)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,761,875	\$5,425,663	(\$336,212)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$5,255,049	\$5,586,088	(\$331,039)

3. CASH AND INVESTMENTS

The Northwestern Local School District serves as the fiscal agent for the Council. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2006 and 2005 were as follows:

	2006	2005
Demand deposits	\$227,745	\$ 96,770
STAR Ohio	452,075	1,329,801
Total deposits and investments	\$679,820	\$1,426,571

Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's entity deposit pool.

4. RELATED PARTY TRANSACTIONS

In consideration for its services, the Northwestern Local School District, as fiscal agent, may receive a fee from the Council in such an amount as approved by the Council Assembly. During the fiscal years ended June 30, 2006 and 2005, \$5,500 of such fees were paid to the Northwestern Local School District by the Council each year.

**WAYNE COUNTY SCHOOLS COUNCIL
WAYNE COUNTY**

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

5. RISK ASSESSMENT

The Council contracts with Medical Mutual Services Company, third party administrator, 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 2006 and 2005, the Council purchased specific stop-loss coverage of \$125,000 per individual and maximum aggregate stop-loss coverage liability of 110% of the expected total claims for the group. The Council Fiscal Officer makes monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf 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.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30:

	<u>2006</u>	<u>2005</u>
Cash and Investments	\$ 233,329	\$ 1,060,151
Actuarial Liabilities	<u>744,600</u>	<u>615,807</u>
Net Plan Assets	<u>(\$511,271)</u>	<u>\$ 444,344</u>

KNOX & KNOX

Accountants and Consultants

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Wayne County Schools Council
Wayne County
7571 North Elyria Road
West Salem, OH 44287

To the Board of Directors:

We have audited the financial statements of Wayne County Schools Council, Wayne County, Ohio (the Council), as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 22, 2006 wherein we noted that the Council prepared its financial statements using accounting practices prescribed by the Auditor of State rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

A 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 grants, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Council, in a separate letter dated September 22, 2006.

Wayne County Schools Council
Wayne County
Report of Independent Accountants on Compliance and Internal
Control Required by *Government Auditing Standards*.
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This report is intended for the information and use of the audit committee, management, and the Board of Directors, and should not be used by anyone other than these specified parties.

KNOX & KNOX

Orrville, Ohio
September 22, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WAYNE COUNTY SCHOOLS COUNCIL

WAYNE 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 5, 2006**