

FULTON - HENRY COUNTIES COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Fulton-Henry Counties Council, Fulton County, prepared by Weber O'Brien Ltd., for the audit period January 1, 2009 through December 31, 2010. 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

April 20, 2012

This page intentionally left blank.

FULTON - HENRY COUNTIES COUNCIL

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 5
Combined Statements of Net Assets and Activities - Modified Cash Basis	6
Notes to Financial Statements	7 - 13
Independent Auditors' 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	14 - 15
Schedule of Findings and Responses	16
Summary Schedule of Prior Audit Findings	17

This page intentionally left blank.



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined statements of net assets and activities – modified cash basis of Fulton - Henry Counties Council (the “Council”), as of and for the years ended December 31, 2010 and 2009. 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of Fulton - Henry Counties Council as of December 31, 2010 and 2009, and the respective changes in its modified cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

Management has omitted the required supplementary information on revenue and claims development that the modified cash accounting basis requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. Our opinion on the basic financial statements is not affected by this missing information.

As more fully described in Note 5, subsequent to year end, the Council has ceased active operations as a health insurance risk pool.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, on our consideration of Fulton - Henry Counties 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. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



February 3, 2012

**Fulton - Henry Counties Council
Management's Discussion and Analysis
For Years Ended December 31, 2010 and 2009
Unaudited**

The management's discussion and analysis of Fulton - Henry Counties Council's (the "Council") financial performance provides an overall review of the Council's financial activities for the years ended December 31, 2010 and 2009. 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 2010 and 2009 are as follows:

- The Council's activities are all accounted for in a single proprietary fund.
- In total, net assets decreased \$329,944, and \$174,342, respectively.
- Charges for services accounted for \$3,049,756 (94%) and \$3,102,696 (97%), respectively, of all receipts. Claims paid were \$3,109,771 (88%) and \$2,612,255 (77%), while disbursements for administrative fees, professional fees, and excess reinsurance premiums were \$421,402 (11%) and \$742,675 (22%) of total operating disbursements of \$3,564,899 and \$3,372,231, respectively.

Using the Basic Financial Statements

This annual report consists of financial statements and notes to those statements. The Council is a single enterprise fund using the modified cash basis of accounting. The combined statements of net assets and activities - modified cash basis provide information about the modified cash basis financial position and activities of the Council.

Table 1 provides a summary of the Council's net assets as of December 31, 2010, 2009, and 2008.

**Table 1
Net Assets**

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
<u>Assets:</u>			
Cash and Investments	<u>\$2,558,943</u>	<u>\$2,888,887</u>	<u>\$3,063,229</u>
<u>Net Assets:</u>			
Unrestricted Net Assets	<u>\$2,558,943</u>	<u>\$2,888,887</u>	<u>\$3,063,229</u>

Fulton - Henry Counties Council
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2010 and 2009
Unaudited

Table 2 reflects the changes in net assets for the years ended December 31, 2010, 2009, and 2008.

Table 2
Change in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:			
Charges for Services	\$3,049,756	\$3,102,696	\$3,716,904
Stop Loss Recoveries	182,019	91,818	97,528
Earnings on Investments	<u>3,180</u>	<u>3,375</u>	<u>36,323</u>
Total Receipts	3,234,955	3,197,889	3,850,755
Disbursements:			
Claims Paid	3,109,771	2,612,255	2,152,032
Stop Loss Premiums	330,004	328,300	403,229
Administrative Fees	47,765	372,683	260,687
Professional Fees	43,633	41,692	46,356
Other Expenses	<u>33,726</u>	<u>17,301</u>	<u>27,260</u>
Total Disbursements	<u>3,564,899</u>	<u>3,372,231</u>	<u>2,889,564</u>
Change in Net Assets	<u>(\$ 329,944)</u>	<u>(\$ 174,342)</u>	<u>\$ 961,191</u>

Charges for services as the primary revenue source supporting the Council's insurance activities, is apparent. Approximately 94% and 97% of receipts for 2010 and 2009, respectively, are charges for services for insurance premiums and claims costs. Charges for services are determined each year by the governing board of the Council in conjunction with consulting specialists. Charges for services for 2010 decreased \$52,940 from 2009 and charges for services for 2009 decreased \$614,208 from 2008. The significant decrease in charges for services from 2008 to 2009 was due to significant excess reserves available to pay claims and other operating expenses so the premiums charged to the member counties were reduced in order to reduce excess reserves.

Claims paid increased by \$497,516 in 2010 from 2009 and increased \$460,223 in 2009 from 2008. There was an increase in total enrolled individuals in both 2009 and 2010 which increased the claims activity. There were also four large claims in 2010 versus one in 2009 which also explains the increase in stop loss recoveries in 2010 from 2009.

Administrative fees paid in 2010 decreased \$324,918 from 2009 due to the administrative fees charged by the claims processor being deferred until 2011 and the fiscal agent fees paid were for a shorter time period for service provided than for those paid in 2009. Administrative fees paid in 2009 increased \$111,996 from 2008 due to no fiscal agent fees paid in 2008. The fiscal agent fees paid in 2009 were for two and half years worth of services provided.

**Fulton - Henry Counties Council
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2010 and 2009
Unaudited**

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, at which time Henry County received approximately \$472,000 as payment for its interest in the net assets of the Council. Any remaining unpaid claims of Henry County employees are the responsibility of Henry County.

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 current operating expenses will be paid by the Council through mid 2012, at which time the remaining Council net assets will be paid to Fulton County. Any remaining unpaid claims of Fulton County employees are the responsibility of Fulton County.

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
 COMBINED STATEMENTS OF NET ASSETS AND ACTIVITIES-MODIFIED CASH BASIS
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING RECEIPTS		
Charges for Services	\$ 3,049,756	\$ 3,102,696
Stop Loss Recoveries	<u>182,019</u>	<u>91,818</u>
TOTAL OPERATING RECEIPTS	3,231,775	3,194,514
OPERATING DISBURSEMENTS		
Claims Paid	3,109,771	2,612,255
Stop Loss Premiums	330,004	328,300
Administrative Fees	47,765	372,683
Professional Fees	43,633	41,692
Other Expenses	<u>33,726</u>	<u>17,301</u>
TOTAL OPERATING DISBURSEMENTS	3,564,899	3,372,231
EXCESS OF OPERATING DISBURSEMENTS OVER OPERATING RECEIPTS	(333,124)	(177,717)
NON-OPERATING RECEIPTS		
Earnings on Investments	<u>3,180</u>	<u>3,375</u>
CHANGE IN NET ASSETS	(329,944)	(174,342)
NET ASSETS (UNRESTRICTED) - BEGINNING OF YEAR	<u>2,888,887</u>	<u>3,063,229</u>
NET ASSETS (UNRESTRICTED) - END OF YEAR	<u>\$ 2,558,943</u>	<u>\$ 2,888,887</u>

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

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

The Fulton-Henry Counties Council (the "Council"), Henry County, 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 consists of representatives from Fulton and Henry Counties. The Council was formed in 1992 and its purpose is to foster cooperation among its members in all areas of service. The Council provides health and prescription drug insurance coverage to Fulton and Henry Counties, and dental insurance coverage to Fulton County employees.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

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). 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. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Council does not apply FASB statements issued after November 30, 1989.

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
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of cash receipts and disbursements and 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 2009 and 2010, 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
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2010 and 2009

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.

Loss Reserve

Provisions for claims reserves and loss adjustment expenses (Note 3) are based on information reported by members and are calculated by an actuary. These amounts represent an estimate of reported, unpaid claims, plus a provision for claims incurred and not reported. The claims reserve is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other factors. Accordingly, the ultimate settlement of losses may vary materially from the estimated amounts disclosed in Note 3. Should the provision for claims reserves not be sufficient, supplemental contributions, as discussed above, will be assessed.

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, 2010 through February 3, 2012, for possible recognition or disclosure in these financial statements. This date is the date these financial statements were available to be issued. See Note 5 regarding disclosure of subsequent events.

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.

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2010 and 2009

NOTE 2 - EQUITY IN CASH AND INVESTMENTS, Continued

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.

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

FULTON - HENRY COUNTIES COUNCIL
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Years Ended December 31, 2010 and 2009

NOTE 2 - EQUITY IN CASH AND INVESTMENTS, Continued

8. Debt instruments of Ohio State and local governments.

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, 2010 and 2009.

Investments

As of December 31, 2010 and 2009, the Council had the following investments, all maturing in two years or less:

Investments - December 31, 2010	<u>Carrying Amount</u>	<u>Fair Value</u>
U. S. Agency Obligations	\$ 100,469	\$ 100,355
Money Market Mutual Funds	<u>2,263,401</u>	<u>2,263,401</u>
Total Investments	<u>\$2,363,870</u>	<u>\$2,363,756</u>
Investments - December 31, 2009	<u>Carrying Amount</u>	<u>Fair Value</u>
U. S. Agency Obligations	\$ 50,000	\$ 51,313
Money Market Mutual Funds	<u>2,838,887</u>	<u>2,838,887</u>
Total Investments	<u>\$2,888,887</u>	<u>\$2,890,200</u>

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2010 and 2009

NOTE 2 - EQUITY IN CASH AND INVESTMENTS, Continued

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.

Credit Risk: The Council's investment policy limits investments to securities specifically authorized by the Ohio Revised Code. As of December 31, 2010 and 2009, the Council's investments consisted of Huntington Funds U.S. Treasury Money Market Fund and Federal Home Loan Bank ("FHLB") discount notes. The Council's investment in Huntington Funds U.S. Treasury Money Market Fund was rated AAAM by Standard & Poor's. The Council's investment in FHLB discount notes was rated AA+ 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 entire balance of the Council's investment in FHLB discount notes is uninsured, not registered in the name of the Council and held by the counterparty. 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 - LOSS RESERVE

The Council provides health and prescription drug insurance coverage to employees of Fulton and Henry Counties, and dental insurance coverage to Fulton County employees. The Council pays covered claims to service providers and recovers these costs through actuarially determined per-employee premiums. As of January 1, 2011, Henry County elected to no longer provide health insurance benefits to its employees through the Council (Note 5). The Council did not obtain an actuarial estimate of the loss reserve attributable to Henry County's employees as of December 31, 2010. The loss reserve for Fulton County as of December 31, 2010 and the loss reserve for Fulton County and Henry County as of December 31, 2009 includes both reported and unreported insured events and estimated future payments of losses and related loss adjustment expenses.

FULTON - HENRY COUNTIES COUNCIL
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2010 and 2009

NOTE 3 - LOSS RESERVE, Continued

A comparison of cash and investments, to the actuarially determined loss reserve (not recorded under the Council's basis of accounting in the accompanying financial statement) as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Cash and Investments	\$2,558,943	\$2,888,887
Actuarial Loss Reserve	\$ 572,536	\$1,020,279

The actuarial loss reserve amount as of December 31, 2010 does not include any amounts relating to Henry County's claims.

Henry County's claims paid in 2011 by the Council for claims incurred in 2010 and prior years for Henry County employees was approximately \$106,000.

NOTE 4 - 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, 2010 and 2009 was \$36,047 and \$166,035, respectively.

NOTE 5 - SUBSEQUENT EVENTS

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, at which time Henry County received approximately \$472,000 as payment for its interest in the net assets of the Council. Any remaining unpaid claims of Henry County employees are the responsibility of Henry County.

Effective January 1, 2012, Fulton County, the remaining County in the Council, 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 operating expenses will be paid by the Council through mid 2012, at which time the remaining Council net assets will be paid to Fulton County. Any remaining unpaid claims of Fulton County employees are the responsibility of Fulton County.

As a result of the matters described in the preceding two paragraphs, the Council ceased active operations as a health insurance risk pool.

This page intentionally left blank.



weber · obrien ltd.

**INDEPENDENT AUDITORS' 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 the accompanying combined statements of net assets and activities – modified cash basis of Fulton - Henry Counties Council (the “Council”), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated February 3, 2012 in which we noted that, subsequent to December 31, 2011, the Council has ceased active operations and that the financial statements omitted certain supplemental information required by the Council’s basis of accounting. 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Fulton - Henry Counties Council’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting 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 2010-01 described in the accompanying schedule of findings and responses to be a material weakness.

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 February 3, 2012.

Fulton - Henry Counties Council's response to the finding identified in our audits is described in the accompanying schedule of findings and responses. We did not audit Fulton - Henry Counties Council's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of and use of management, the Board of Directors, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.



February 3, 2012

FULTON - HENRY COUNTIES COUNCIL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2010

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.

Criteria: Statement on Auditing Standards No. 115, *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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2010

Finding 2008-01

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 2010-01.



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
MAY 3, 2012