

**PREBLE COUNTY SCHOOLS
REGIONAL COUNCIL OF GOVERNMENTS
FINANCIAL STATEMENTS
June 30, 2012**



Dave Yost • Auditor of State

Members of the Governing Board
Preble County Schools Regional Council of Governments
597 Hillcrest Drive
Eaton, Ohio 45320

We have reviewed the *Report of Independent Accountants* of the Preble County Schools Regional Council of Governments, Preble County, prepared by Joseph Decosimo and Company, LLC, for the audit period July 1, 2010 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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 Preble County Schools Regional 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

February 22, 2013

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**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

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REPORT OF INDEPENDENT ACCOUNTANTS

Council Governing Board
Preble County Schools Regional Council of Governments
Eaton, Ohio

We have audited the accompanying statements of cash receipts, cash disbursements and changes in fund cash balance - enterprise fund of the Preble County Schools Regional Council of Governments (the Council), as of and for the years ended June 30, 2012 and 2011. 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 entity'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

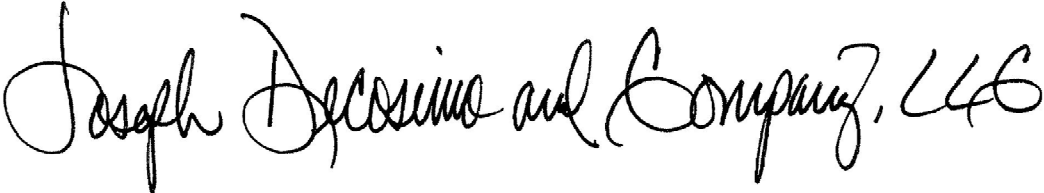
As described more fully in Note 2, the Council has prepared these financial statements using accounting practices prescribed or permitted by the Ohio Auditor of State, whose practices differ from accounting principles generally accepted in the United States of America (GAAP). The effect on the financial statements of the variances between these regulatory accounting practices and GAAP, although not reasonably determinable, are presumed to be material.

While the accompanying financial statements do not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Ohio Auditor of State permits, but does not require, governments to reformat their statements. The Council has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply that the amounts reported are materially misstated under the accounting basis the Ohio 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 do not present fairly, in conformity with GAAP, the financial position of the Council as of June 30, 2012 and 2011, or the changes in its financial position or its cash flows, where applicable, for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Preble County Schools Regional Council of Governments as of June 30, 2012 and 2011, and its cash receipts and disbursements for the years then ended, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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Cincinnati, Ohio
December 20, 2012

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
STATEMENTS OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>Operating Cash Receipts:</u>		
Health Benefit Premium Deposits	\$ 312,192	\$ 203,557
Total Operating Cash Receipts	<u>312,192</u>	<u>203,557</u>
<u>Operating Cash Disbursements:</u>		
Medical Claims	690,942	1,588,423
Holiday Premium	22,547	154,989
Management Fees	15,870	13,218
Bank Fees	415	285
Audit Fees	-	6,336
Wellness Program	<u>16,150</u>	<u>-</u>
Total Operating Cash Disbursements	<u>745,924</u>	<u>1,763,251</u>
Excess of Operating Cash Disbursements Over Operating Cash Receipts	(433,732)	(1,559,694)
<u>Non-Operating Cash Receipts:</u>		
Interest	<u>4,171</u>	<u>10,358</u>
Total Non-Operating Cash Receipts	<u>4,171</u>	<u>10,358</u>
Excess of Cash Disbursements Over Cash Receipts	(429,561)	(1,549,336)
Fund Cash Balance, Beginning of Year	<u>4,103,312</u>	<u>5,652,648</u>
Fund Cash Balance, End of Year	<u><u>\$ 3,673,751</u></u>	<u><u>\$ 4,103,312</u></u>

The accompanying notes are an integral part of the financial statements.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ENTITY

The Preble County Schools Regional Council of Governments, Preble County, Ohio (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 an insurance-purchasing public entity risk pool, as defined by paragraphs 10 and 13b of the Governmental 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 employees of each member public school district and to promote cooperative programs, which may be approved in accordance with the Council by-laws.

The Council Governing Board is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member district. As of June 30, 2012 and 2011, there were six members of the Council.

The Council Governing Board is the advisory body of the Council. It consists of the authorized representative of each member public school district, which is the superintendent or his/her designee. Among other responsibilities, the Governing Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Governing Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations related to member program costs and adjustments.

The joint insurance – purchasing agreement of the member entities can be terminated by two-thirds vote of the Governing Board. Upon such termination, the excess funds of employee benefit trusts, if any, remaining after payment of the obligations of such trust and the payment of the reasonable and necessary expenses incurred in termination of such trust, shall be used toward the initial cost of whatever insurance provider or insurance vehicle replaces such trust for each member district at the time of termination.

Any such distributions for the benefit of a member district shall be in proportion to the total contributions made by such member district while a member of the Council to the total contributions made by all member districts while members of the Council.

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

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

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

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

B. CASH AND INVESTMENTS

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2012 and 2011.

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 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 charge; or (b) where the governing board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. SUBSEQUENT EVENTS

The Council has evaluated subsequent events for potential recognition and disclosure through December 20, 2012, the date the financial statements were available to be issued.

NOTE 3 - FUNDING ARRANGEMENTS

The Council has agreed to an alternate funding arrangement for medical benefits. The program remains insured and is called Contingent Premium, which is a reduced pre-payment form of insurance with an annual settlement.

Funds received by the Council consist of medical premium rates for each of the member school districts' participating employees. Rates are contingent upon the level of claims utilization. The program operates as follows:

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FUNDING ARRANGEMENTS, continued

1. The school pays a monthly contingent premium rate to the insurance carrier for single and family units covered.
2. The Preble County Educational Service Center (the Service Center) serves as the fiscal agent for the Council. The Service Center deposits the difference between the Risk Premium rate and the Contingent Premium rate into a Council bank account each month.
3. Within six months of the end of the contract renewal (March of each year), an annual settlement will be made which will compare the contingent premiums, risk premium, incurred claims, retention charges, and all other data required for settlement in determination of the obligation, if any, to the insurance carrier. The Council's obligation will be determined as follows:
 - a. If the incurred claims plus retention is less than the cumulative contingent premium, no payment shall be due from either party.
 - b. If the incurred claims plus retention is greater than the cumulative contingent premium, but less than the cumulative risk premium, the Council pays the insurance carrier the difference between the incurred claims plus retention and the cumulative contingent premium.
 - c. If the incurred claims plus retention exceeds the cumulative risk premium, the Council shall pay the difference between the cumulative risk premium and the cumulative contingent premium, and the amount in excess of the risk premium shall become the liability of the insurance carrier.

The Council implemented a high deductible second medical core option effective September 1, 2006. Each district was provided the opportunity to offer both options to their employees. The Council agreed that each district could offer a Health Reimbursement Arrangement (HRA) for their employees to offset the higher deductibles. Each district board controls the HRA; the local district contributes all dollars contributed to the HRA account. The employees of each district have no vested interest in any remaining HRA account balances at the time of termination and/or retirement.

In June 2011, the Council set the funding rate at 90% of the full medical premium, 90%-110% contingent premium, for the year ended June 30, 2012. By funding at this level, no contributions were made to the Council's balance during fiscal year 2012.

In June 2010, the Council set the funding rate at 88% of the full medical premium, 90%-110% contingent premium for the fiscal year ended June 30, 2011. By funding at this level, no contributions were made to the Council's balance. This funding level also resulted in the Council absorbing 2.5% of the 20% rate increase with payments to districts for this amount.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amounts of deposits and investments as of June 30, 2012 and 2011, were as follows:

	June 30, 2012	June 30, 2011
Demand Deposits	\$2,538,241	\$2,521,915
Investments – STAR Ohio	<u>1,135,510</u>	<u>1,581,397</u>
Total Deposits and Investments	<u>\$3,673,751</u>	<u>\$4,103,312</u>

Deposits

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

Investments

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

NOTE 5 - RISK MANAGEMENT

The Council contracts with:

1. Advanced Benefit Planning, Inc., a consulting/brokerage firm, to provide expertise in the area of health care benefits and funding arrangements with Anthem Blue Cross and Blue Shield;
2. Pohlman and Talmage, a local CPA firm, to monitor the revenue and disbursements from all member districts in the Council's reserve account;
3. Infinisource to provide expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants; and
4. BusinessPlans, Inc. to manage the Health Reimbursement Arrangement (HRA) employee payments and district account balances.

NOTE 6 - RISK LIABILITY

Contingent Premium is a pre-payment form of insurance with an annual settlement. The member districts pay Anthem Blue Cross and Blue Shield 90% of the conventional fully insured rates with a maximum liability of 110% of the conventional fully insured rates. This alternate funding arrangement insured through Anthem Blue Cross and Blue Shield requires an annual settlement within six months of the contract renewal.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - RISK LIABILITY, continued

The amount of obligation is pre-determined each contract year (September 1). The estimated medical liability for the contract year September 1, 2010 through August 31, 2011, is \$1,750,152 and due in the spring of 2012; the estimated medical liability for the contract year September 1, 2011 through August 31, 2012, is \$1,955,438.

Since the Council's inception in September 1992, the reserve account has exceeded the estimated liability established by Anthem Blue Cross and Blue Shield.

INTERNAL CONTROL AND COMPLIANCE

**REPORT OF INDEPENDENT ACCOUNTANTS 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***

Council Governing Board
Preble County Schools Regional Council of Governments
Eaton, Ohio

We have audited the financial statements of cash receipts, cash disbursements and changes in fund cash balance - enterprise fund of the Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 20, 2012, in which it is noted that the Council prepared its financial statements on a basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a basis other than accounting principles generally accepted in the United States of America. 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

Management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Council's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

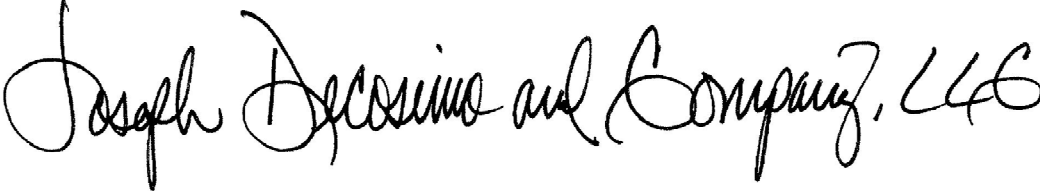
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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 audit, 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*.

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

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Cincinnati, Ohio
December 20, 2012

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF
GOVERNMENTS**

SCHEDULE OF PRIOR AUDIT FINDINGS

Years Ended June 30, 2010 and 2009

None reported.



Dave Yost • Auditor of State

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

PREBLE 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
MARCH 7, 2013**