



# **Balestra, Harr & Scherer, CPAs, Inc.**

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## LAWRENCE COUNTY SCHOOLS COUNCIL OF GOVERNMENTS LAWRENCE COUNTY

For the Year Ended September 30, 2014  
Fiscal Year Audited Under GAGAS: 2014





# Dave Yost • Auditor of State

Board of Directors  
Lawrence County Schools Council of Governments  
111 South 4th Street  
Ironton, Ohio 45638

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lawrence 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

July 14, 2015

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**Lawrence County Schools Council of Governments**  
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*For the Fiscal Year Ended September 30, 2014*

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# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## Independent Auditor's Report

Lawrence County Schools Council of Governments  
111 South 4th Street  
Ironton, Ohio 45638

To the Council:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of the Lawrence County Schools Council of Governments (the Council), Lawrence County, Ohio, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 overall financial statement presentation.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lawrence County Schools Council of Governments, Lawrence County, Ohio as of September 30, 2014 and the changes in its financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *Claims development information*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 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.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
March 23, 2015

**Lawrence County Schools Council of Governments**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended September 30, 2014*

*(Unaudited)*

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The discussion and analysis of the Lawrence County Schools Council of Government's (the "Council") financial performance provides an overall review of the Council's financial activities for the fiscal year ended September 30, 2014. 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 the notes to the basic financial statements to enhance their understanding of the Council's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2014 are as follows:

- The assets of Lawrence County School Council of Governments exceeded its liabilities at September 30, 2014 by \$1,423,027.
- Net position of the Lawrence County School Council of Governments decreased \$197,983 from the prior year.

**OVERVIEW OF BASIC FINANCIAL STATEMENTS**

The Council is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statement of Net Position** includes all of the Council's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the Council, and obligations owed by the Council (liabilities) on September 30, 2014. The Council's net position is the difference between assets and liabilities.

The **Statement of Revenues, Expenses and Changes in Net Position** provides information on the Council's operations over the past year and the success of recovering all its costs through user fees, charges and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statement of Cash Flows** provides information about the Council's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, noncapital financing and capital financing activities.

The notes to the basic financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.



**Lawrence County Schools Council of Governments**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended September 30, 2014  
(Unaudited)

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**STATEMENT OF NET POSITION**

Table 1 provides a summary of the Council's net position for 2014 as compared to 2013.

Table 1  
Net Position

|                               | 2014        | 2013        |
|-------------------------------|-------------|-------------|
| <b><u>Assets</u></b>          |             |             |
| Current and Other Assets      | \$4,356,304 | \$4,262,075 |
| Total Assets                  | 4,356,304   | 4,262,075   |
| <b><u>Liabilities</u></b>     |             |             |
| Current and Other Liabilities | 2,933,277   | 2,641,065   |
| Total Liabilities             | 2,933,277   | 2,641,065   |
| <b><u>Net Position</u></b>    |             |             |
| Unrestricted                  | 1,423,027   | 1,621,010   |
| Total Net Position            | \$1,423,027 | \$1,621,010 |

Current and other assets mainly consisted of cash and accounts receivable. Current and other assets increased due to an increase in account receivable.

Current and other liabilities consisted of claims payable and unearned revenue. Current and other liabilities increased due mainly to an increase in unearned revenue, which is a direct result of the increase in accounts receivable and due to an increase in claims payable.

The Council's net position is unrestricted. The net position represents resources that may be used to meet the Council's ongoing obligations to pay medical claims and other expenses.

**Lawrence County Schools Council of Governments**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended September 30, 2014  
(Unaudited)

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**STATEMENT OF CHANGES IN NET POSITION**

Table 2 shows the changes in net position for the fiscal year ended September 30, 2014 as compared to 2013.

Table 2  
Changes in Net Position

|                                   | 2014         | 2013         |
|-----------------------------------|--------------|--------------|
| Operating Revenues:               |              |              |
| Charges for Services              | \$14,343,212 | \$14,297,242 |
| Total Operating Revenues          | 14,343,212   | 14,297,242   |
| Operating Expenses:               |              |              |
| Claims                            | 13,822,000   | 12,204,817   |
| Administrative and Stop Loss Fees | 539,378      | 711,568      |
| Other Purchased Services          | 185,381      | 175,387      |
| Miscellaneous                     | 1,565        | 7,536        |
| Total Operating Expenses          | 14,548,324   | 13,099,308   |
| Nonoperating Revenue:             |              |              |
| Interest Income                   | 7,129        | 6,352        |
| Change in Net Position            | (197,983)    | 1,204,286    |
| Net Position - Beginning of Year  | 1,621,010    | 416,724      |
| Net Position - End of Year        | \$ 1,423,027 | \$ 1,621,010 |

The most significant expenses for the Council are Claims. Claims, which represent 95 percent of total expenses, represent medical claims and prescription costs paid as benefits for employees of the members of the Council. Claims expense increased \$1,617,183 from the prior year (13.3%) due to additional claims incurred during fiscal year 2014.

The most significant revenue for the Council is charges for services. Charges for services are premiums received from member districts and remained consistent with the prior year.

**BUDGET HIGHLIGHTS**

The Lawrence County Schools Council of Councils is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At September 30, 2014, the Council had no capital assets.

**Debt Administration**

At September 30, 2014, the Council had no debt outstanding.

**Lawrence County Schools Council of Governments**

*Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2014  
(Unaudited)*

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**CURRENT ISSUES**

Management believes that the Lawrence County Schools Council of Government is financially stable. As indicated in the preceding financial information, the Council is dependent on premiums received from member districts. Premium revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program benefit levels will be dependent on increased premiums to meet inflation or changes in claims incurred by member districts. Careful financial planning will permit the Council to provide quality benefits for the employees of the member districts.

**CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Council's finances and to reflect the Council's accountability for the monies it receives. Questions about this report or additional financial information should be directed to Teresa Lawless, Treasurer at the fiscal agent, Lawrence County Educational Service Center, 111 South 4<sup>th</sup> Street, Ironton, Ohio 45638.

**Lawrence County Schools Council of Governments**  
*Lawrence County*  
*Statement of Net Position*  
*As of September 30, 2014*

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|  |                            |
|--|----------------------------|
| <b>Assets:</b>                             |                            |
| Equity in Pooled Cash and Cash Equivalents | \$ 4,239,400               |
| Accounts Receivable                        | 106,487                    |
| Prepaid Items                              | <u>10,417</u>              |
| Total Assets                               | <u><u>4,356,304</u></u>    |
| <b>Liabilities:</b>                        |                            |
| Claims Payable                             | 1,704,068                  |
| Unearned Revenue                           | <u>1,229,209</u>           |
| Total Liabilities                          | 2,933,277                  |
| <b>Net Position:</b>                       |                            |
| Unrestricted                               | <u>1,423,027</u>           |
| Total Net Position                         | <u><u>\$ 1,423,027</u></u> |

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

**Lawrence County Schools Council of Governments**  
*Lawrence County*  
*Statement of Revenues, Expenses and Change in Net Position*  
*For the Fiscal Year Ended September 30, 2014*

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|                                     |            |                     |
|-------------------------------------|------------|---------------------|
| <b>Operating Revenues:</b>          |            |                     |
| Charges for Services                |            | \$ 14,343,212       |
|                                     |            | <u>14,343,212</u>   |
| Total Operating Revenues            |            | <u>14,343,212</u>   |
| <b>Operating Expenses</b>           |            |                     |
| Claims                              | 13,822,000 |                     |
| Administrative and Stop Loss Fees   | 539,378    |                     |
| Other Purchased Services            | 185,381    |                     |
| Miscellaneous                       | 1,565      |                     |
|                                     |            | <u>1,565</u>        |
| Total Operating Expenses            |            | <u>14,548,324</u>   |
| Operating Loss                      |            | <u>(205,112)</u>    |
| <b>Other Nonoperating Revenues:</b> |            |                     |
| Interest Income                     | 7,129      |                     |
|                                     |            | <u>7,129</u>        |
| Total Nonoperating Revenues         |            | <u>7,129</u>        |
| Net Change in Net Position          |            | (197,983)           |
| Net Position, October 1             |            | <u>1,621,010</u>    |
| Net Position, September 30          |            | <u>\$ 1,423,027</u> |

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

**Lawrence County Schools Council of Governments**  
*Lawrence County*  
*Statement of Cash Flows*  
*For the Fiscal Year Ended September 30, 2014*

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

|   |                |
|---|----------------|
| Cash Received from Member Districts                 | \$ 14,435,625  |
| Cash Payments for Claims                            | (13,728,688)   |
| Cash Payments for Administrative and Stop Loss Fees | (539,378)      |
| Cash Payments for Other Purchased Services          | (195,798)      |
| Cash Payments for Miscellaneous                     | <u>(1,565)</u> |

|                                    |          |
|------------------------------------|----------|
| Net Cash from Operating Activities | (29,804) |
|------------------------------------|----------|

Cash Flows from Investing Activities:

|                         |              |
|-------------------------|--------------|
| Interest on Investments | <u>7,129</u> |
|-------------------------|--------------|

|                                    |              |
|------------------------------------|--------------|
| Net Cash from Investing Activities | <u>7,129</u> |
|------------------------------------|--------------|

|   |          |
|---|----------|
| Net Decrease in Cash and Cash Equivalents | (22,675) |
|---|----------|

|   |                  |
|---|------------------|
| Cash and Cash Equivalents Beginning of Year | <u>4,262,075</u> |
|---|------------------|

|                                       |                            |
|---------------------------------------|----------------------------|
| Cash and Cash Equivalents End of Year | <u><u>\$ 4,239,400</u></u> |
|---------------------------------------|----------------------------|

Reconciliation of Operating Loss  
to Net Cash from Operating Activities:

|                |              |
|----------------|--------------|
| Operating Loss | \$ (205,112) |
|----------------|--------------|

(Increase) Decrease in Assets and  
Increase (Decrease) in Liabilities:

|                     |               |
|---------------------|---------------|
| Accounts Receivable | (106,487)     |
| Prepaid Items       | (10,417)      |
| Unearned Revenue    | 198,900       |
| Claims Payable      | <u>93,312</u> |

|                   |                |
|-------------------|----------------|
| Total Adjustments | <u>175,308</u> |
|-------------------|----------------|

|                                    |                           |
|------------------------------------|---------------------------|
| Net Cash from Operating Activities | <u><u>\$ (29,804)</u></u> |
|------------------------------------|---------------------------|

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

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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1. DESCRIPTION OF COUNCIL OF GOVERNMENTS AND REPORTING ENTITY

A. Description of the Entity

The Lawrence County Schools Council of Governments, Lawrence County, Ohio (the Council), formed effective October 1, 2011, is a Regional Council of Governments, governed by and construed in accordance with the laws of the State, and it is the intention of the Council Members that their agreements shall comply with section 9.833 of the Ohio Revised Code. The Council is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws (agreement) of the Council.

The Lawrence County Schools Council of Government is a legally separate Council. The Council is in a jointly governed organization with member governmental entities. The Council was formed for the primary purpose of establishing and carrying out a cooperative health program for its member governmental entities. The governing board consists of the superintendent or other designee appointed by each of the members of the Council.

The Council utilizes the Lawrence County Educational Service Center as its fiscal agent. The financial activity for the Council is reflected as an agency fund of the fiscal agent.

Management believes the financial statements included in this report represent all of the financial activity of the Council over which the Council has the ability to exercise direct operating control.

The Council is a partially self-funded pool for health insurance (medical and prescription drug). The Council uses a third party administrator to adjudicate claims, approve/deny claims according to the certificate of coverage, and reimburse medical/Rx providers. Anthem Blue Cross Blue Shield is the third party administrator for medical/Rx insurance as well as the stop loss provider. To protect the Council from catastrophic claims, the Council purchased specific stop loss insurance for its medical/Rx plan. This coverage, includes a specific stop loss limit of **\$200,000** per subscriber up to a maximum of **\$1,000,000** per subscriber per contract period. Stop loss coverage for dental is not applicable as the dental is currently fully insured.

The Council administers the monthly billings and collections from council members. The Council uses Cross Management for the management, bidding, and labor relations services. The Council utilizes The Libman Actuarial Group, Inc. in relation to actuarial certification of reserves under Ohio Revised Code 9.833.

To withdraw from the Health Benefit Program, the withdrawing member shall submit a written request to withdraw to the Board of Directors one year prior to the effective date which shall be June 30<sup>th</sup> of the requested year. The Board of Directors may waive the one year written notice if they so desire. Upon withdrawal from the Health Benefits Program, a withdrawing Member of at least five (5) years shall be entitled to recover their net excess pooled share of the Operating Fund as of June 30<sup>th</sup> of the year the member is withdrawing. A withdrawing Member of less than five (5) five years shall not be entitled to recover the initial cost. The Fiscal Agent shall distribute their net pooled share to the withdrawing Member not earlier than 90 days and not later than 180 days following receipt of the withdrawing Member. All claims submitted by Covered Persons of the withdrawing Member after the recovery of funds shall be exclusively the liability of the withdrawing Member and the withdrawing Member specifically waives all claims and rights against the Operating Fund and the Health Benefits Program as a result of claims filed after such recovery of funds.

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Council's accounting policies are described below.

The Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Councils. Certain items of significance in the Statement include the following:

A. Basis of Presentation

The Council's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and change in net position; and a statement of cash flows. The Council uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Statement of revenues, expenses and change in net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Basis of Accounting

As stated above, basis of accounting determines when transactions are recorded in the financial records and reported in the basic financial statements. The Council's basic financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from the nonexchange transactions, in which the Council receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Council must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Council on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Cash and Investments

The Council's cash is held and invested by the fiscal agent, Lawrence County Educational Service Center, (the "Service Center"). The Service Center acts as a custodian for Council monies. The Council's assets are held by the Service Center in a separate demand deposit account.



**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Council applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

As of September 30, 2014, none of the Council's net position is considered restricted by enabling legislation.

F. Budgetary Process

The member governments of the Council are required by Ohio law to adopt an annual budget. The Council itself does not adopt a budget.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Council. For the Council, these revenues are charges for insurance services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. For the Council, these expenses are for claims, administrative and stop loss fees, other purchased services, and any other operating related expenses. All revenues and expenses not meeting this definition are reported as non-operating.

H. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Payments made by member districts in September 2014 are for claims to be incurred in October and are reported as unearned revenue at year end.

I. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported on the basic financial statements and accompanying notes. Actual results may differ from those estimates.

J. Claims Payable

Claims incurred during the current fiscal year, but not paid until the subsequent fiscal year are recorded as a liability in the accompanying financial statements. Please see Note 4 for additional information.

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Council into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Council Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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3. DEPOSITS AND INVESTMENTS (continued)

8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
9. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than one hundred eighty days after purchase.

Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Fiscal Agent by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Council, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Fiscal Agent or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Educational Service Center's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

At September 30, 2014, the bank balance of all Council deposits was either exposed to custodial risk as discussed above or covered by Federal Deposit Insurance Corporation.

**Investments:** As of September 30, 2014, the Council held no investments.

4. RISK MANAGEMENT

The Lawrence County Schools Council of Governments, Lawrence County, Ohio (the Council), is a Regional Council of Governments, governed by and construed in accordance with the laws of the State (Chapter 167 of the Ohio Revised Code), and it is the intention of the Council Members that their agreements shall comply with section 9.833 of the Ohio Revised Code. The Council is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws (agreement) of the Council.

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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4. RISK MANAGEMENT (continued)

The Council is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors is composed of one representative from each member school.

The Council is self-insured for health insurance and prescription drugs. Annual premiums are determined by a majority vote of the Directors.

To withdraw from the Health Benefit Program, the withdrawing member shall submit a written request to withdraw to the Board of Directors one year prior to the effective date which shall be June 30<sup>th</sup> of the requested year. The Board of Directors may waive the one year written notice if they so desire. Upon withdrawal from the Health Benefits Program, a withdrawing Member of at least five (5) years shall be entitled to recover their net excess pooled share of the Operating Fund as of June 30<sup>th</sup> of the year the member is withdrawing. A withdrawing Member of less than five (5) five years shall not be entitled to recover the initial cost. The Fiscal Agent shall distribute their net pooled share to the withdrawing Member not earlier than 90 days and not later than 180 days following receipt of the withdrawing Member. All claims submitted by Covered Persons of the withdrawing Member after the recovery of funds shall be exclusively the liability of the withdrawing Member and the withdrawing Member specifically waives all claims and rights against the Operating Fund and the Health Benefits Program as a result of claims filed after such recovery of funds.

The claims liability of \$1,704,068 reported at September 30, 2014 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the current and prior fiscal year are as follows:

|      | <u>Balance at<br/>Beginning of Year</u> | <u>Current<br/>Year Claims</u> | <u>Claim Payments</u> | <u>Balance at<br/>End of Year</u> |
|------|---|--------------------------------|-----------------------|-----------------------------------|
| 2013 | \$1,543,791                             | \$12,204,817                   | \$12,137,852          | \$1,610,756                       |
| 2014 | 1,610,756                               | 13,822,000                     | 13,728,688            | 1,704,068                         |

5. SHARED RISK POOL

The Lawrence County Schools Council of Governments is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by a council; which consists of the superintendent from each participating school district. The council elects officers for one-year terms to serve on the Board of Directors. The council exercises control over the operation of the council. All council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. The Lawrence County Educational Service Center is the fiscal agent of the Council.

**Lawrence County Schools Council of Governments**

*Lawrence County*

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended September 30, 2014*

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6. LOSS RESERVE

The loss reserve for the Lawrence County Schools Council of Governments is not less than 20 percent nor more than 30 percent of claims paid for the preceding 12 month period that would not be covered by Aggregate Stop-Loss Insurance. At September 30, 2014 the reserve for health and prescription drug was \$2,270,343. The Council's excess cash balance over the reserve/surplus calculation at September 30, 2014 was \$1,969,057.

REQUIRED  
SUPPLEMENTARY INFORMATION

**LAWRENCE COUNTY SCHOOLS COUNCIL OF GOVERNMENTS**

**CLAIMS DEVELOPMENT**

**YEARS ENDED SEPTEMBER 2012 THROUGH SEPTEMBER 2014**

**Claims Development Information**

The following table illustrates how Lawrence County Schools Council of Governments' (Council) earned revenues and investment income compare to related costs of loss and other expenses assumed by the Council. The rows of the table are defined as follows:

- 1) This section shows the total of each fiscal year's earned contract revenues and investment revenues.
- 2) This line shows each fiscal year's other operating costs of the Council including overhead and claims expense not allocable to individual claims.
- 3) This section shows the Council's estimated incurred claims and allocated claim adjustment expense (both paid and accrued) as originally determined for each policy year.
- 4) This section of rows show the cumulative amounts paid as of the end of successive years for each policy year.
- 5) This line compares the cumulative incurred claims amount to the amount originally established (line 3) and shows whether the cumulative claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between the original estimated and cumulative claims amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Note: The following table only reports years 2012 through current since 2012 was the first fiscal year that the Council operated.

**LAWRENCE COUNTY SCHOOLS COUNCIL OF GOVERNMENTS**  
**CLAIMS DEVELOPMENT**  
**YEARS ENDED SEPTEMBER 2012 THROUGH 2014**

|  | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|-------------|
| 1. Required contribution and investment revenue  |             |             |             |
| Earned (a)   | 14,350,341  | 14,303,594  | 14,338,666  |
| 2. Unallocated expenses (a)  | 726,324     | 894,491     | 1,000,875   |
| 3. Estimated claims for policy year: (b)   |             |             |             |
| Incurred   | 13,639,910  | 13,288,485  | 13,132,386  |
| 4. Net paid claims as of: (b)  |             |             |             |
| End of policy year   | 12,439,163  | 11,270,437  | 6,473,908   |
| One year later   | N/A         | 1,008,502   | 803,290     |
| Two years later  | N/A         | N/A         | -           |
| 5. Increase (decrease) in net paid claims from<br>estimated incurred claims for policy year. | (1,200,747) | (1,009,546) | (5,855,188) |

(a) - Reported for fiscal year ended September 30 for each year.

(b) - Report for policy year ended April 30 for each year. The third party administrator provides an estimate of claims for each policy year at the beginning of the policy year. They do not recalculate estimates of claims after that date.





## Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lawrence County Schools Council of Governments  
111 South 4th Street  
Ironton, Ohio 45638

To the Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Lawrence County Schools Council of Governments, Lawrence County, (the Council), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated March 23, 2015.

#### *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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2014-001 to be a significant deficiency.

#### *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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Lawrence County Schools Council of Governments  
Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by Government Auditing Standards  
Page 2

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

***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.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
March 23, 2015

# Lawrence County Schools Council of Governments

*Lawrence County  
Schedule of Findings and Responses  
For the Fiscal Year Ended September 30, 2014*

## **FINDING NUMBER 2014-001**

### **Significant Delinquency/Non-compliance – Accounting Records**

Ohio Administrative Code Section (OAC) 117-2-02 states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. OAC 117-2-02(B)(2) further states that all account balances and transactions that should be included in the financial records are included.

The Council did not post activity to their accounting system in a timely manner in accordance with the Ohio Administrative Code Section (OAC) 117-2-02(B)(2). We noted that the transactions of the Council subsequent to July 2014 were not posted to the accounting system.

This renders the accounting reports inaccurate and nearly useless for budgeting and forecasting.

We recommend the Treasurer enter activity to the Council's accounting system on a regular basis to ensure the availability of proper and sufficient accounting records.

### **Client Response:**

The Client has indicated they will implement increased controls including the timely posting of financial activity. Additional improvements will be made as they are financially feasible in the future.

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# Dave Yost • Auditor of State

**LAWRENCE COUNTY SCHOOLS COUNCIL OF GOVERNMENTS**

**LAWRENCE 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  
JULY 28, 2015**