



OHIO AUDITOR OF STATE  
**KEITH FABER**





**MERCER-AUGLAIZE AREA SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018 AND  
THE YEAR ENDED DECEMBER 31, 2017**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Basic Financial Statements:	
Statement of Net Position – Cash Basis – April 23, 2018.....	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position – Cash Basis – For the Period January 1, 2018 through April 23, 2018 .....	4
Notes to the Basic Financial Statements – For the Period January 1, 2018 through April 28, 2018 .....	5
Statement of Net Position – Cash Basis - December 31, 2017 .....	11
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position – Cash Basis – For the Year Ended December 31, 2017 .....	12
Notes to the Basic Financial Statements – For the Year Ended December 31, 2017.....	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19
Schedule of Findings.....	21
Prepared by Management:	
Summary Schedule of Prior Audit Findings .....	22

**This page intentionally left blank.**



One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

## INDEPENDENT AUDITOR'S REPORT

Mercer-Auglaize Area Schools Regional Council of Governments  
Mercer County  
441 East Market Street  
Celina, Ohio 45822

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the Mercer-Auglaize Area Schools Regional Council of Governments, Mercer County, Ohio (the Council), as of and for the period January 1, 2018 through April 23, 2018 and the year ended December 31, 2017, 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Mercer-Auglaize Area Schools Regional Council of Governments, Mercer County, Ohio, as of April 23, 2018 and December 31, 2017, and the respective changes in cash financial position thereof for the period January 1, 2018 through April 23, 2018 and year ended December 31, 2017 in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the Council to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Emphasis of Matter**

As discussed in Note 7 to the basic financial statements, on April 23, 2018 the Governing Board of the Mercer-Auglaize Area Schools Regional Council of Governments voted to dissolve as a regional council of government and converted to a Trust. Upon dissolution, all cash and investments of the Council became assets of the Trust. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, 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.



Keith Faber  
Auditor of State  
Columbus, Ohio

October 30, 2019

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS  
APRIL 23, 2018

ASSETS:	
Cash equivalents . . . . .	\$ 799,738
Investments . . . . .	<u>13,356,950</u>
Total assets . . . . .	<u><u>\$ 14,156,688</u></u>
NET CASH POSITION:	
Unrestricted. . . . .	<u><u>\$ 14,156,688</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH POSITION  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

Operating cash receipts:	
Member premiums . . . . .	\$ 7,672,919
Insurance rebates . . . . .	156,797
Other . . . . .	<u>32,517</u>
Total operating cash receipts . . . . .	<u>7,862,233</u>
Operating cash disbursements:	
Claims . . . . .	7,015,696
Administration/stop loss premiums . . . . .	631,920
Wellness programs . . . . .	5,092
Consulting fees. . . . .	20,833
Legal and professional fees . . . . .	12,562
Other . . . . .	<u>8,406</u>
Total operating cash disbursements . . . . .	<u>7,694,509</u>
Excess of operating cash receipts over operating cash disbursements . . . . .	<u>167,724</u>
Nonoperating cash receipts:	
Interest . . . . .	<u>45,855</u>
Change in net cash position . . . . .	213,579
Net cash position at beginning of year . . . . .	<u>13,943,109</u>
Net cash position at end of year . . . . .	<u><u>\$ 14,156,688</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

**NOTE 1 - DESCRIPTION OF THE COUNCIL**

The Mercer-Auglaize Area Schools Regional Council of Governments, (the “Council”) was 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 provides employee welfare benefits as described in Section 501(c)(9) of the Internal Revenue Code for the benefit of employees of the member public school districts of the Council. In order to accomplish this purpose, the Council may enter into the following agreements: (1) a minimum premium insurance agreement with a duly licensed and qualified insurance company defined in Section 9.90 and Section 3313.202 of the Ohio Revised Code (ORC), (2) a Council agreement with duly licensed and qualified bank for the payment of Council’s obligation under such a minimum premium insurance agreement, the provision of benefits described in Section 501(c)(9) of the Internal Revenue Code for the benefit of the Council’s members public school districts’, and the investment of surplus amounts, (3) a qualified insurance consultant to advise the Council of the contributions required to fulfill the purpose of the Council, and (4) a qualified third party administrator to administer any employee welfare benefit plan offered by the Council to member public school districts.

The Council is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health, prescription drug and dental benefits for member public school district employees in accordance with the Council’s constitution and bylaws.

The Council is governed by a Council Governing Board (the “Board”) consisting of the superintendent of each member public school district or his/her designee. The Board is authorized to enter into agreements as deemed necessary to provide welfare benefit plans to the member public school districts.

The Council consists of member public school districts. The Council’s current membership consists of eleven local school districts and two educational service centers. New member public school districts may be admitted with a two-thirds vote of the Board. Withdrawing members must deposit or account for terminal liabilities as provided for in the Master Plan adopted by the Council, trust agreement and/or minimum premium insurance contract. A withdrawing member district forfeits any right to monies held in the trust reserve fund. Any member public school district may withdraw from the Council by providing all other members and the insurance provider or third party administrator written notice of his intent. Said withdrawal shall be allowed only upon expiration of the insurance contract rating period and shall be effective ninety (90) days after said written notice is received by the acting Board Chairman and the provider.

The Council administers medical, prescription drug, and dental benefit plans for employees of the member participating public school districts and their eligible dependents. Huntington National Bank acts as trustee for the Council.

Effective April 23, 2018, the Board voted to dissolve the Council as a regional council of governments and converted to a Trust (see Note 7).

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.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on the cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**A. Basis of Presentation**

The Council's financial statements are presented in a format consistent with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Council's financial statements consist of a statement of net cash position - cash basis and statement of cash receipts, cash disbursements and changes in net cash position - cash basis. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in Note 2.B.

**B. Basis of Accounting**

Although Ohio Admin. Code 117-2-03(B) requires the Council's financial report to follow generally accepted accounting principles, the Council's financial statements are prepared using the cash basis of accounting. 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.

As a result of the use of this 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 accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the Board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

Operating cash receipts are those receipts that are generated directly from the primary activity of the Council. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the Council. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

**C. Cash Equivalents and Investments**

Investments are reported as assets. 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. At April 23, 2018, the Council's investments consisted of Federal Home Loan Mortgage Corporation (FHLMC) bonds, Federal Home Loan Bank (FHLB) bonds, Federal Farm Credit bank (FFCB) bonds, Federal National Mortgage Association (FNMA) bonds, U.S. Treasury Bonds, and U.S. Government money market mutual funds which are valued at cost.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

For purposes of reporting on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Council are considered to be "cash equivalents". Investments with an initial maturity of more than three months are considered to be "investments".

An analysis of the Council's investments at fiscal year-end is provided in Note 3.

**D. Member and Supplemental Contributions**

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative disbursements 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 disbursements, the Board can, by a two-thirds vote, require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Council and any later period when claims or disbursements need to be paid which are attributable to any membership year during which the event or claim occurred.

**E. Budgetary Process**

The member public school districts of the Council are required by Ohio law to adopt an annual budget. The Council itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

**F. Net Cash Position**

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Council had no restricted net cash position at fiscal year end.

**NOTE 3 - CASH EQUIVALENTS AND INVESTMENTS**

The Council's investment policy dictates that cash and investments be maintained in compliance with all applicable laws governing the operation of the Council, including the Ohio Revised Code Section 135.03

The Council is permitted to deposit or invest in the following:

1. Bonds, notes or other obligations of or guaranteed by the United States, or those for which the full faith of the United States is pledged for payment of principal and interest thereon but does not include stripped principal or interest obligations of such obligations;
2. Bonds, notes or debentures, or any other obligations or securities directly issued by a Federal government agency or instrumentality;
3. No-load money market mutual funds consisting exclusively of obligations described in 1 or 2 above or repurchase agreements secured by such obligations, provided such investments are made only through eligible institutions authorized by ORC 135.03;
4. The State Treasurer's investment pool (STAR Ohio); and,

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

**NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS - (Continued)**

5. Certificates of deposit or savings account insured by Federal Deposit Insurance Corporation (FDIC).

As of April 23, 2018, the Council had the following investments with their respective maturities:

<u>Investment type</u>	<u>Cost</u>	<u>Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 2,084,283	\$ 499,750	\$ 596,388	\$ 988,145	\$ -
FHLB	2,747,163	2,097,163	650,000	-	-
FFCB	1,595,333	500,630	595,038	-	499,665
FNMA	2,947,136	302,871	1,407,935	1,236,330	-
U.S. Treasury bonds	3,983,035	499,879	3,483,156	-	-
U.S. government money market mutual funds	<u>799,738</u>	<u>799,738</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,156,688</u>	<u>\$ 4,700,031</u>	<u>\$ 6,732,517</u>	<u>\$ 2,224,475</u>	<u>\$ 499,665</u>

The weighted average maturity of investments at April 23, 2018, is 0.57 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Council's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The Council's investments in federal agency securities and U.S. Treasury bonds were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The Council's investment policy does not specifically address credit risk beyond requiring the Council to only invest in securities authorized by State statute.

*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 federal agency securities and U.S. treasury bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's Council department or agent, but not in the Council's name. 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.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

**NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The Council places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at April 23, 2018:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
FHLMC	\$ 2,084,283	14.72
FHLB	2,747,163	19.41
FFCB	1,595,333	11.27
FNMA	2,947,136	20.81
U.S. Treasury bonds	3,983,035	28.14
U.S. government money market mutual funds	<u>799,738</u>	<u>5.65</u>
Total	<u>\$ 14,156,688</u>	<u>100.00</u>

**NOTE 4 - RISK MANAGEMENT**

The Council contracts with third party administrator, Medical Mutual, to process and pay medical claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of medical claims. The Council contracts with Corporate One Benefits Agency, Inc. (Corporate One) who monitors the trust account.

The Council contracts with third party administrator, Express Scripts, to process and pay prescription drug claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of prescription drug claims. The Council contracts with Corporate One who monitors the trust account.

The Council contracts with third party administrator, Superior Dental Care, Inc., to process and pay dental claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of dental claims. The Council contracts with Corporate One who monitors the trust account.

The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability. For 2018, the Council contracted with American International Group (AGI) for stop-loss coverage in the amount of \$400,000. The stop-loss coverage has no aggregate specific deductible, no annual maximum and an unlimited lifetime maximum.

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in *Actuarial Standard of Practice No. 5, Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018

**NOTE 4 - RISK MANAGEMENT - (Continued)**

The Council's cash equivalents and investments to the actuarially-measured liability as of April 23, 2018:

	<u>2018</u>
Cash Equivalents and Investments	\$14,156,688
Actuarial Liabilities	3,329,700

**NOTE 5 - CONTRACTED SERVICES**

For the period January 1, 2018 through April 23, 2018, the Council contracted with Corporate One to assist them with the annual renewals of its medical, prescription drug and dental plans. Corporate One also helps the Council and its members with maintaining the current plan of benefits including design, claim adjudication, customer service, billing and compliance issues. In addition, they review alternative plan design and determine that claims are paid in accordance to specifications of the plan.

**NOTE 6 - COMPLIANCE**

Ohio Admin. Code §117-2-03(B) requires that the Council prepare its annual financial report in accordance with GAAP. However, the Council prepared its financial statements on a cash basis, which is a financial reporting framework other than GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The Council can be fined, and various other administrative remedies may be taken against the Council.

**NOTE 7 - DISSOLUTION OF OPERATIONS AS A REGIONAL COUNCIL OF GOVERNMENTS**

The Mercer-Auglaize Area Schools Regional Council of Governments was established under Chapter 167 of the Ohio Revised Code. Effective April 23, 2018, the Governing Board of the Mercer-Auglaize Area Schools Regional Council of Governments voted to dissolve as a regional council of government and converted to a Trust. The Council's cash and investment balance at April 23, 2018 was \$14,156,688. Upon dissolution, all cash and investments of the Council became assets of the Trust.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS  
DECEMBER 31, 2017

ASSETS:	
Cash equivalents . . . . .	\$ 6,388,079
Investments . . . . .	<u>7,555,030</u>
Total assets . . . . .	<u><u>\$ 13,943,109</u></u>
NET CASH POSITION:	
Unrestricted. . . . .	<u><u>\$ 13,943,109</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH POSITION - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating cash receipts:	
Member premiums . . . . .	\$ 22,204,820
Insurance rebates . . . . .	437,397
Other . . . . .	39,293
	22,681,510
Operating cash disbursements:	
Claims . . . . .	20,918,073
Administration/stop loss premiums . . . . .	2,210,200
Wellness programs . . . . .	130,496
Consulting fees. . . . .	81,648
Legal and professional fees . . . . .	68,003
Other . . . . .	535,243
	23,943,663
Excess of operating cash receipts over (under) operating cash disbursements . . . . .	(1,262,153)
Nonoperating cash receipts:	
Grants . . . . .	2,500
Interest . . . . .	117,446
	119,946
Change in net cash position . . . . .	(1,142,207)
Net cash position at beginning of year . . . . .	15,085,316
	15,085,316
Net cash position at end of year . . . . .	\$ 13,943,109

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 - DESCRIPTION OF THE COUNCIL**

The Mercer-Auglaize Area Schools Regional Council of Governments, (the "Council") was 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 provides employee welfare benefits as described in Section 501(c)(9) of the Internal Revenue Code for the benefit of employees of the member public school districts of the Council. In order to accomplish this purpose, the Council may enter into the following agreements: (1) a minimum premium insurance agreement with a duly licensed and qualified insurance company defined in Section 9.90 and Section 3313.202 of the Ohio Revised Code (ORC), (2) a Council agreement with duly licensed and qualified bank for the payment of Council's obligation under such a minimum premium insurance agreement, the provision of benefits described in Section 501(c)(9) of the Internal Revenue Code for the benefit of the Council's members public school districts', and the investment of surplus amounts, (3) a qualified insurance consultant to advise the Council of the contributions required to fulfill the purpose of the Council, and (4) a qualified third party administrator to administer any employee welfare benefit plan offered by the Council to member public school districts.

The Council is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health, prescription drug and dental benefits for member public school district employees in accordance with the Council's constitution and bylaws.

The Council is governed by a Council Governing Board (the "Board") consisting of the superintendent of each member public school district or his/her designee. The Board is authorized to enter into agreements as deemed necessary to provide welfare benefit plans to the member public school districts.

The Council consists of member public school districts. The Council's current membership consists of eleven local school districts and two educational service centers. New member public school districts may be admitted with a two-thirds vote of the Board. Withdrawing members must deposit or account for terminal liabilities as provided for in the Master Plan adopted by the Council, trust agreement and/or minimum premium insurance contract. A withdrawing member district forfeits any right to monies held in the trust reserve fund. Any member public school district may withdraw from the Council by providing all other members and the insurance provider or third party administrator written notice of his intent. Said withdrawal shall be allowed only upon expiration of the insurance contract rating period and shall be effective ninety (90) days after said written notice is received by the acting Board Chairman and the provider.

The Council administers medical, prescription drug, and dental benefit plans for employees of the member participating public school districts and their eligible dependents. Huntington National Bank acts as trustee for the Council.

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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on the cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**A. Basis of Presentation**

The Council's financial statements are presented in a format consistent with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Council's financial statements consist of a statement of net cash position - cash basis and statement of cash receipts, cash disbursements and changes in net cash position - cash basis. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in Note 2.B.

**B. Basis of Accounting**

Although Ohio Admin. Code 117-2-03(B) requires the Council's financial report to follow generally accepted accounting principles, the Council's financial statements are prepared using the cash basis of accounting. 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.

As a result of the use of this 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 accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the Board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

Operating cash receipts are those receipts that are generated directly from the primary activity of the Council. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the Council. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

**C. Cash Equivalents and Investments**

Investments are reported as assets. 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. At December 31, 2017, the Council's investments consisted of Federal Home Loan Mortgage Corporation (FHLMC) bonds, Federal Home Loan Bank (FHLB) bonds, Federal Farm Credit bank (FFCB) bonds, Federal National Mortgage Association (FNMA) bonds, U.S. Treasury Bonds, and U.S. Government money market mutual funds which are valued at cost.

For purposes of reporting on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Council are considered to be "cash equivalents". Investments with an initial maturity of more than three months are considered to be "investments".

An analysis of the Council's investments at fiscal year-end is provided in Note 3.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Member and Supplemental Contributions**

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative disbursements 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 disbursements, the Board can, by a two-thirds vote, require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Council and any later period when claims or disbursements need to be paid which are attributable to any membership year during which the event or claim occurred.

**E. Budgetary Process**

The member public school districts of the Council are required by Ohio law to adopt an annual budget. The Council itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

**F. Net Cash Position**

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Council had no restricted net cash position at fiscal year end.

**NOTE 3 - CASH EQUIVALENTS AND INVESTMENTS**

The Council's investment policy dictates that cash and investments be maintained in compliance with all applicable laws governing the operation of the Council, including the Ohio Revised Code Section 135.03

The Council is permitted to deposit or invest in the following:

1. Bonds, notes or other obligations of or guaranteed by the United States, or those for which the full faith of the United States is pledged for payment of principal and interest thereon but does not include stripped principal or interest obligations of such obligations;
2. Bonds, notes or debentures, or any other obligations or securities directly issued by a Federal government agency or instrumentality;
3. No-load money market mutual funds consisting exclusively of obligations described in 1 or 2 above or repurchase agreements secured by such obligations, provided such investments are made only through eligible institutions authorized by ORC 135.03;
4. The State Treasurer's investment pool (STAR Ohio); and,
5. Certificates of deposit or savings account insured by Federal Deposit Insurance Corporation (FDIC).

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS - (Continued)**

As of December 31, 2017, the Council had the following investments with their respective maturities:

<u>Investment type</u>	<u>Cost</u>	<u>Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 793,415	\$ 293,665	\$ 499,750	\$ -
FHLB	1,749,863	503,795	1,246,068	-
FFCB	1,299,103	799,438	-	499,665
FNMA	2,613,062	1,497,719	1,115,343	-
U.S. Treasury Bonds	1,099,587	300,063	799,524	-
U.S. Government Money				
Market Mutual Funds	<u>6,388,079</u>	<u>6,388,079</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 13,943,109</u>	<u>\$ 9,782,759</u>	<u>\$ 3,660,685</u>	<u>\$ 499,665</u>

The weighted average maturity of investments at December 31, 2017, is 0.34 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Council’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The Council’s investments in federal agency securities and U.S. Treasury bonds, were rated AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. The U.S. government money market mutual funds were rated AAAM by Standard & Poor’s. The Council’s investment policy does not specifically address credit risk beyond requiring the Council to only invest in securities authorized by State statute.

*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 federal agency securities and U.S treasury bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s Council department or agent, but not in the Council’s name. 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.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The Council places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at December 31, 2017:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
FHLMC	\$ 793,415	5.69
FHLB	1,749,863	12.54
FFCB	1,299,103	9.32
FNMA	2,613,062	18.74
U.S. Treasury bonds	1,099,587	7.89
U.S. government money market mutual funds	<u>6,388,079</u>	<u>45.82</u>
Total	<u>\$ 13,943,109</u>	<u>100.00</u>

**NOTE 4 - RISK MANAGEMENT**

The Council contracts with third party administrator, Medical Mutual, to process and pay medical claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of medical claims. The Council contracts with Corporate One Benefits Agency, Inc. (Corporate One) who monitors the trust account.

The Council contracts with third party administrator, Express Scripts, to process and pay prescription drug claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of prescription drug claims. The Council contracts with Corporate One who monitors the trust account.

The Council contracts with third party administrator, Superior Dental Care, Inc., to process and pay dental claims incurred by its members. Huntington National Bank is trustee for the Council. Members pay monthly premiums to the Council which are placed into a trust account at Huntington National Bank for payment of dental claims. The Council contracts with Corporate One who monitors the trust account.

The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability. For 2017, the Council contracted with Sun Life for stop-loss coverage in the amount of \$250,000. The stop-loss coverage has no aggregate specific deductible, no annual maximum and an unlimited lifetime maximum.

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in *Actuarial Standard of Practice No. 5, Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

**MERCER-AUGLAIZE AREA SCHOOLS  
REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 4 - RISK MANAGEMENT - (Continued)**

The Council's cash equivalents and investments to the actuarially-measured liability as of December 31, 2017:

	<u>2017</u>
Cash Equivalents and Investments	\$13,943,109
Actuarial Liabilities	3,498,100

**NOTE 5 - CONTRACTED SERVICES**

For 2017, the Council contracted with Corporate One to assist them with the annual renewals of its medical, prescription drug and dental plans. Corporate One also helps the Council and its members with maintaining the current plan of benefits including design, claim adjudication, customer service, billing and compliance issues. In addition, they review alternative plan design and determine that claims are paid in accordance to specifications of the plan.

**NOTE 6 - COMPLIANCE**

Ohio Admin. Code §117-2-03(B) requires that the Council prepare its annual financial report in accordance with GAAP. However, the Council prepared its financial statements on a cash basis, which is a financial reporting framework other than GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The Council can be fined, and various other administrative remedies may be taken against the Council.



One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

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

Mercer-Auglaize Area Schools Regional Council of Governments  
Mercer County  
441 East Market Street  
Celina, Ohio 45822

To the Board of Trustees:

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 cash basis financial statements of the Mercer-Auglaize Area Schools Regional Council of Governments, Mercer County, (the Council) as of and for the period January 1, 2018 through April 23, 2018 and the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated October 30, 2019, wherein we noted the Council uses a special purpose framework other than generally accepted accounting principles and dissolved as a regional council of government and converted to a Trust effective April 23, 2018.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Council's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 2018-001.

***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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

October 30, 2019



MERCER-AUGLAIZE AREA SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS  
MERCER COUNTY

SCHEDULE OF FINDINGS  
FOR THE PERIOD JANUARY 1, 2018 THROUGH APRIL 23, 2018 AND  
THE YEAR ENDED DECEMBER 31, 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2018-001

**Noncompliance**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**Ohio Admin. Code § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the Council to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The Council prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the Council may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Council's ability to evaluate and monitor the overall financial condition of the Council. To help provide the users with more meaningful financial statements, the Council should prepare its annual financial statements according to generally accepted accounting principles.

**Official's Response:**

We did not receive a response from Officials to this finding.

**MERCER AUGLAIZE AREA SCHOOLS REGIONAL COUNCIL OF  
GOVERNMENTS  
MERCER COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2017 AND APRIL 23, 2018**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2016-001	Ohio Rev. Code § 117.38 & Ohio Admin. Code § 117-2-03(B) – Failed to prepared financial statements in accordance with GAAP.	Not Corrected	Repeated as Finding 2018-001

# OHIO AUDITOR OF STATE KEITH FABER



**MERCER-AUGLAIZE AREA SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS**

**MERCER 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  
NOVEMBER 19, 2019**