



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

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STATE OF OHIO  
OFFICE OF THE AUDITOR  

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## REPORT OF INDEPENDENT ACCOUNTANTS

Scioto County Schools Council  
Scioto County  
411 Court Street  
Room 105  
Portsmouth, Ohio 45662

To the Board of Directors:

We have audited the accompanying financial statement of the Scioto County Schools Council, Scioto County, Ohio (the Council), as of and for the years ended June 30, 2001 and 2000. This financial statement is the responsibility of the Council's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

The Ohio Revised Code requires joint self-insured health-care programs to calculate (i.e., reserve) amounts required to cover health care benefit liabilities and prepare a report, within 90 days after the fiscal year-end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. Additionally, an actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The Council did not obtain the reports referred to above or the actuarial certification. As a result, Note 4 to the financial statement does not disclose the actuarial liability as of June 30, 2001. Additionally, because there was no actuarial certification of the liability as of June 30, 2000, the scope of our work was not sufficient for us to express an opinion on the June 30, 2000 actuarial information.

As discussed in Note 1, the Council prepares its financial statement on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for omission of the actuarial liability as of June 30, 2001, and except as we express no opinion on the actuarial liability disclosed in Note 4 as of June 30, 2000, the financial statement referred to above presents fairly, in all material respects, the cash balance of the Scioto County Schools Council, Scioto County, as of June 30, 2001 and June 30, 2000, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

April 29, 2002

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b>Cash Receipts:</b>		
Charges for Insurance	\$10,669,801	\$9,726,733
Stop-loss Reimbursements	509,848	482,505
Earnings on Investments	57,061	43,445
Miscellaneous	68,490	53,720
	<hr/>	<hr/>
Total Cash Receipts	11,305,200	10,306,403
	<hr/>	<hr/>
<b>Cash Disbursements:</b>		
Claims Payments	8,698,117	9,943,640
Fees/Premiums	696,875	461,781
Purchased Services	22,628	7,700
Miscellaneous	1,506	814
	<hr/>	<hr/>
Total Cash Disbursements	9,419,126	10,413,935
	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	1,886,074	(107,532)
	<hr/>	<hr/>
Cash Balance, July 1	831,766	939,298
	<hr/>	<hr/>
<b>Cash Balance, June 30</b>	<b><u><u>\$2,717,840</u></u></b>	<b><u><u>\$831,766</u></u></b>

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

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**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2001 AND 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Scioto County Schools Council (the Council), a Regional Council of Governments organized under Ohio Revised Code Chapter 167, was created for the purpose of establishing and administering a cooperative health insurance program. The Council is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Board of Directors is the legislative and managerial body of the Council. The Board of Directors is composed of representatives from member school districts who have been appointed by their respective school district (normally the Superintendent).

The Board of Directors appoints a Board of Education of a member district, with the consent of the said Board of Education, as the Fiscal Agent for the Council. The Treasurer of the Fiscal Agent shall be the Treasurer of the Council. The South Central Ohio Educational Service Center serves as the Fiscal Agent for the Council.

The Council's management believes this financial statement presents all activities for which the Council is financially accountable.

**B. Basis of Accounting**

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

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

To improve cash management, all cash received by the Council is pooled in three central bank accounts. Monies are maintained in these accounts or temporarily used to purchase short term investments. During fiscal years 2001 and 2000, investments were limited to a repurchase agreement and STAROhio (the state investment pool).

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2001 AND 2000  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The Council maintains a cash and investments pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<b>2001</b>	<b>2000</b>
Demand deposits	\$210,324	\$81,623
Repurchase Agreement	2,389,705	638,948
STAR, Ohio	117,811	111,195
Total deposits and investments	\$2,717,840	\$831,766

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

**Investments:** The Council's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in a physical or book entry form.

The Council maintains an overnight sweep account. The financial institution maintains records identifying securities pledged on the account.

**3. RISK MANAGEMENT**

The Council is a regional council of governments organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health and dental insurance program. The Council, which is open to any board of education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both for individual claims (\$100,000) and in the aggregate (\$9,797,398).

Each member of the Council is obligated to pay a fee based on an estimate of the member's share of the Council costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health and dental insurance stop-loss premiums, and their proportionate share of the administrative cost of the Council.

Member schools may withdraw from the Council at the end of any fiscal year upon notification to the Fiscal Agent by September 15 in the fiscal year preceding the fiscal year in which the member will withdraw, and may be removed for failure to make the required payments. Upon withdrawal, the withdrawing member forfeits all funds paid into the Health Benefit Plan and shall assume and be responsible for payment of all claims of its eligible employees incurred through the withdrawal date.

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2001 AND 2000  
(Continued)**

**4. ACTUARIAL REPORT**

An Actuarial Valuation of Claim Liability and Funded Status was performed for the period ended June 30, 2000, but had not been performed for the period ended June 30, 2001 as of the date of this report. While the valuation was performed for the period ended June 30, 2000, there was no actuarial certification that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The purpose of the valuations is to estimate claims that have been incurred, whether reported at June 30 or not, under the Scioto County Schools Council health plan as of a valuation date, to compare its liability to funds reserved. Information regarding the funding status as of June 30, 2001 was not available at the time of this report.

Cash at June 30, 2000	\$831,766
Due from Member Districts and Excess Pooling	
Insurance at June 30, 2000 (unaudited)	189,359
Prepaid Expenses (unaudited)	<u>702</u>
Total Assets	<u>1,021,827</u>
Actuarial Liability at June 30, 2000 (unaudited)	<u>1,561,585</u>
Net Deficit	<u><u>(\$539,758)</u></u>

**5. SUBSEQUENT EVENT**

The Council, had contracted with CoreSource to serve as the Third Party Plan administrator for several years. During April, 2001, the Council accepted bids for a Third Party Plan administrator to administer the program starting July 1, 2001. The Board of Directors selected Medical Mutual of Ohio as the Third Party Administrator starting July 1, 2001. This change resulted in the members joining the MMO-Classic medical and dental plan as well as the prescription plan administered by Merck-Medco.

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

Scioto County Schools Council  
Scioto County  
411 Court Street  
Room 105  
Portsmouth, Ohio 45662

To the Board of Directors:

We have audited the accompanying financial statement of the Scioto County Schools Council, Scioto County, Ohio (the Council), as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated April 29, 2002, wherein we qualified our opinion for the lack of adequate disclosure of the actuarial liability as of June 30, 2001. In addition, the scope of our work was not sufficient to support an opinion on the actuarial liability as of June 30, 2000. Except for the restriction on the scope of our audit of the June 30, 2000 actuarial liability, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Council's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2001-60773-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Council in a separate letter dated April 29, 2001.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Council in a separate letter dated April 29, 2001.

Scioto County Schools Council  
Scioto County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

**Jim Petro**  
Auditor of State

April 29, 2002

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001 AND 2000**

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

**FINDING NUMBER 2001-60773-001**

**Noncompliance Citation**

Ohio Rev. Code Section 9.833 requires joint self-insured health-care programs to calculate (i.e., reserve) amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year-end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. This report is not filed with any office, including the Auditor of State. It should be retained by the government and be made available upon request.

An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

The Third Party Plan Administrator calculated the amount required to cover health care benefits liabilities and prepared the required report for fiscal year 2000. However the liability calculation and required report for fiscal year 2001 were not prepared as of the date of this report. Additionally, the Council did not obtain the required actuarial certification that the amounts reserved were fairly stated in accordance with sound loss reserving principals for fiscal years 2000 and 2001. These instances of noncompliance have resulted in the inability of the Council to provide adequate financial statement disclosure of the plan's funding status; and have resulted in the qualification of the opinion on the financial statements due to the lack of proper disclosure.

We recommend the Council require the Third Party Administrator to calculate the amounts required to cover the health care benefits liabilities and prepare the required report within 90 days of fiscal year end as required. We further recommend the Council obtain the required certification from a qualified actuary that the amounts reserved as included in the report are fairly stated in accordance with sound loss reserving principles.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**SCIOTO COUNTY SCHOOLS COUNCIL**

**SCIOTO 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  
JUNE 4, 2002**