



**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO  
AUDITOR OF STATE**

STATE OF OHIO



STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants .....	1
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance - Proprietary Fund Type For the Year Ended June 30, 2001 .....	3
Notes to the Financial Statements .....	5
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	11

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## REPORT OF INDEPENDENT ACCOUNTANTS

Stark County Schools Council of Government  
Stark County  
2100 38<sup>th</sup> Street NW  
Canton, Ohio 44709

To the Board of Directors:

We have audited the accompanying financial statements of the Stark County Schools Council of Government, Stark County, (the Council) as of and for the year ended June 30, 2001. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

As described in Note 1, the Council prepares its financial statements 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, the financial statements referred to above present fairly, in all material respects, the fund cash balance and reserve for encumbrances of the Council as of June 30, 2001, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 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 Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

February 14, 2002

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCE - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Enterprise</u>
<b>Operating Cash Receipts:</b>	
Health Benefit Premium Deposits	\$41,983,840
COBRA Deposits	259,932
Flex Pro Plan Deposits	839,643
Stop Loss Reimbursements	<u>582,858</u>
 Total Operating Cash Receipts	 <u>43,666,273</u>
<b>Operating Cash Disbursements:</b>	
Medical Claims	41,245,696
Life Insurance	818,900
Administrative Fees	2,793,442
Supplies	1,140
Other	<u>20,244</u>
 Total Operating Cash Disbursements	 <u>44,879,422</u>
 Excess of Operating Cash Receipts (Under) Operating Cash Disbursements	  <u>(1,213,149)</u>
<b>Non-Operating Cash Receipts:</b>	
Building Rent and Sale	705,125
Interest	<u>670,061</u>
 Total Non-Operating Cash Receipts	 <u>1,375,186</u>
 Excess of Cash Receipts Over Cash Disbursements	  162,037
 Fund Cash Balance, July 1, 2000	 <u>13,069,795</u>
 <b>Fund Cash Balance, June 30, 2001</b>	 <b><u><u>\$13,231,832</u></u></b>
 Reserve for Encumbrances, June 30, 2001	 <u><u>\$10,615</u></u>

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

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**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE ENTITY**

The Stark County Schools Council of Government, Stark County, (the Council) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provision and administration of health care benefits for member employees and to promote other cooperative programs (such as the group rating for Workers' Compensation) which may be approved in accordance with the Council by-laws.

The Council Assembly is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member. As of June 30, 2001, there were 35 members of the Council.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flows, resulting in a transfer of all risk. Members with less than 3 years experience are required to maintain a "reserve balance" equal to 30% of their prior fiscal year claims.

The Board of Directors is the advisory body of the Council and is comprised of 5 individuals, including the Superintendent of the Stark County Educational Service Center who serves as the Chairman. Among other responsibilities, the Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations to the Council Assembly related to member program costs and adjustments.

The Council Agreement can be terminated by two-thirds vote of the participating members. Upon such termination, the net reserve balance will be transferred to the members in proportion to their fiscal year premium deposits divided by the total deposits of all members.

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

**B. BASIS OF ACCOUNTING**

These financial statements follow 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 they are earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

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

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. CASH AND INVESTMENTS**

Investments in the Money Market Sweep, Certificates of Deposit, Federal National Mortgage Association and Federal Home Loan Bank are valued at cost.

**D. FUND ACCOUNTING**

The Council maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**E. BUDGETARY PROCESS**

The Council is not required to follow the budgetary process but has decided to adopt a formal budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

**3. Encumbrances**

The Council reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2001 budgetary activity appears in Note 2.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. BUDGETARY ACTIVITY**

Budgetary activity for the year ending June 30, 2001 is as follows:

2001 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$44,800,000	\$45,041,459	\$241,459

2001 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$45,434,448	\$44,890,037	\$544,411

**3. CASH AND INVESTMENTS**

The Stark County Educational Service Center (the Educational Service Center) serves as the fiscal agent for the Council. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2001 was as follows:

Demand Deposits	(\$821,070)
Money Market Sweep	1,562,918
Certificates of Deposit	3,500,000
Federal National Mortgage Association	1,005,757
Federal Home Loan Bank	<u>7,984,227</u>
Total Deposits and Investments	<u>\$13,231,832</u>

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

Federal National Mortgage Association and Federal Home Loan Bank investments are held in book-entry form by the Federal Reserve, in the name of the Stark County Educational Service Center's financial institution. The financial institution maintains records identifying the Stark County Educational Service Center as the owner of these securities.

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**4. RELATED PARTY TRANSACTIONS**

In consideration for its services, the Educational Service Center, as fiscal agent, may receive a fee from the Council in such an amount as approved by the Council Assembly. During the fiscal year ended June 30, 2001, \$94,374 of such fees were paid to the Service Center by the Council.

**5. CAPITAL LEASE**

On June 15, 1995, the Council agreed to construct and lease a building (owned by the Council) to the Educational Service Center for a term of five years commencing on July 1, 1996. The lease requires annual rent payments of \$65,000 payable in lump sum on or before June 30 of each year.

The Council also granted the Educational Service Center an option to purchase the building from the Council for the amount of \$640,125 at the end of the lease term. This option was exercised by the Educational Service Center on June 29, 2001, when final payment was made.

**6. RISK MANAGEMENT**

The Council contracts with two third party administrators, Medical Mutual Services Company and AultCare Corporation, to process and pay health benefit claims incurred by its members. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums and administrative charges. During fiscal year 2001, the Council purchased specific stop-loss coverage of \$200,000 per individual and a maximum aggregate stop-loss coverage liability of \$42,383,442. The Council Treasurer makes monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of Council members. Any rate increases/decreases from the stop-loss insurance carrier are passed on to Council participants through their individual participation rates negotiated with the stop-loss insurance carrier. All new members of the Council are required to maintain a 30% reserve balance within three years of joining.

The Council also contracts with Comp Management, Inc. to provide workers' compensation benefits at a reduced pool rate for its members. The experience rating of each participating member is calculated as one experience rate and applied to all participants in the program.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30:

	<u>2001</u>	<u>2000</u>
Cash and investments	\$12,204,424	\$12,194,666
Actuarial liabilities	\$ 3,468,216	\$ 5,905,650

**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**7. SEGMENT INFORMATION**

The Council maintains separate enterprise fund accounts for health benefits and flexible spending (Internal Revenue Code Section 125) benefits. Separate account information for these accounts for the year ended June 30, 2001 was as follows:

	<u>Health Plan</u>	<u>Flex Pro Plan</u>	<u>Total</u>
Operating Receipts	\$42,822,098	\$844,175	\$43,666,273
Operating Disbursements	<u>44,005,622</u>	<u>873,800</u>	<u>44,879,422</u>
Operating Receipts (Under)			
Operating Disbursements	(1,183,524)	(29,625)	(1,213,149)
Non-Operating Receipts	<u>1,375,186</u>	<u>0</u>	<u>1,375,186</u>
Receipts Over (Under)			
Disbursements	<u>\$191,662</u>	<u>(\$29,625)</u>	<u>\$162,037</u>
Fund Cash Balance, June 30, 2001	<u>\$13,127,009</u>	<u>\$104,823</u>	<u>\$13,231,832</u>

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

Stark County Schools Council of Government  
Stark County  
2100 38<sup>th</sup> Street NW  
Canton, Ohio 44709

To the Board of Directors:

We have audited the financial statements of the Stark County Schools Council of Government, Stark County, (the Council) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 14, 2002. 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 statements are 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**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 statements 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 statements 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.

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

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 February 14, 2002.

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.

**Jim Petro**  
Auditor of State

February 14, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**STARK COUNTY SCHOOLS COUNCIL OF GOVERNMENT**

**STARK 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  
FEBRUARY 26, 2002**