



**Auditor of State
Betty Montgomery**

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Defiance-Fulton-Henry Counties Council
Henry County
660 N. Perry Street
P.O. Box 546
Napoleon, Ohio 43545-0546

To the Board of Directors:

We have audited the accompanying financial statements of Defiance-Fulton-Henry Counties Council (the Council) as of and for the years ended December 31 2001 and 2002. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 cash balances of the Council as of December 31 2001 and 2002, 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 October 9, 2003 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.

Defiance-Fulton-Henry Counties Council
Henry County
Independent Accountants' Report
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This report is intended solely for the information and use of the management, the Council members, 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.

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Betty Montgomery
Auditor of State

October 9, 2003

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
Operating Cash Receipts:		
Charges for Services	\$ 3,340,576	\$ 4,192,268
Earnings on Investments	42,762	55,131
Contributions	-	74,381
Total Cash Receipts	3,383,338	4,321,780
Operating Cash Disbursements:		
Claims Paid	2,864,059	3,468,592
Administrative Fees and Stop Loss Premiums	572,207	426,319
Other Objects	6,260	4,956
Total Cash Disbursements	3,442,526	3,899,867
Operating Income/(Loss)	(59,188)	421,913
Cash Balances, January 1	1,144,654	722,741
Cash Balances, December 31	\$ 1,085,466	\$ 1,144,654

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

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**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Defiance-Fulton-Henry Counties Council, Henry County, (the Council) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council is directed by a board of directors under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments. The Council consists of representatives from Defiance, Fulton and Henry Counties. The Council was formed in 1992 and its purpose is to foster cooperation among its members in all areas of service. Currently, the Council provides health insurance coverage to Fulton and Henry Counties.

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 earned, and disbursements are recognized when 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.

C. Investments

Investments are included in fund cash balances. 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.

Certificates of Deposit and U.S. Treasury Securities are valued at cost. Money market mutual funds are recorded at share values reported by the mutual fund.

D. Fund Accounting

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources.

E. Budgetary Process

The Council budgets annually.

Appropriations

Prior to November 30 in each Fiscal Year, the Board of Directors shall approve the annual appropriations of the Council for the next Fiscal Year based upon the estimate of the costs of

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Continued)**

operating the Council and its programs and within the limits of the certification of resources by the Council Treasurer.

For 2001 and 2002 appropriations were not passed and resources were not certified.

2. EQUITY IN CASH AND INVESTMENTS

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

	2002	2001
Certificates of Deposit	\$ 250,000	\$ 250,000
U.S. Treasury Securities	835,466	492,994
Mutual Funds	-	401,660
Total investments	835,466	894,654
Total Deposits and Investments	\$ 1,085,466	\$ 1,144,654

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

Investments: U.S. Treasury Securities are held in book-entry form held by an agent in the name of the Council's financial institution. The financial institution maintains records identifying the Council as owner of these securities. Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. RISK MANAGEMENT

The Council provides health and dental insurance to employees of Defiance, Fulton and Henry Counties. The Council pays covered claims to service providers, and recovers these costs through actuarially determined per employee premiums. A comparison of Insurance Fund cash and investments to the actuarially-measured liability as of December 31 follows:

	2002	2001
Investments	\$ 1,085,466	\$ 1,144,654
Actuarial liabilities	\$ 721,501	\$ 903,694



**Auditor of State
Betty Montgomery**

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

Defiance-Fulton-Henry Counties Council
Henry County
660 N. Perry Street
P.O. Box 546
Napoleon, Ohio 43545-0546

To the Board of Directors:

We have audited the financial statements of Defiance-Fulton-Henry Counties Council as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 9, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 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 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Council in a separate letter dated October 9, 2003.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also 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 October 9, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 9, 2003

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Noncompliance Citation

Section 2, (F)(2) Powers and Duties of the Bylaws Governing Defiance-Fulton-Henry Counties Council states that, "Prior to November 30 in each Fiscal Year, the Board of Directors shall approve the annual appropriations of the Council for the next Fiscal year based upon the estimate of the costs of operating the Council and its programs."

Discussion was noted in the minutes regarding effects on the budget. However, there was no indication in the minutes of any formal action taken by the Board of Directors of approving any appropriations in 2002 or 2001 for the Health Care Benefits Program.

To ensure compliance with the Council's Bylaws, we recommend that they be reviewed and followed as established.

FINDING NUMBER 2003-002

Reportable Condition - Claims Paid Review

The Council Treasurer receives the detail claims paid reports and reviews them for unusual, duplicate or large payments. There is no verification if the claims paid were for eligible employees or dependents.

This deficiency could lead to claims being paid by the third party administrator against the Council's insurance program for ineligible recipients to go undetected.

To strengthen the monitoring of claims paid for eligible employees or dependents, we recommend the Council Treasurer (or individuals designated by the Board of Directors other than payroll clerks of each County) review the detail claims expense reports against the individual County records, on a periodic basis. This review may help determine that claims are being paid for only eligible employees and their dependents.

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-60135-001	Section 2, (F)(2) <u>Powers and Duties</u> of the Bylaws Governing Defiance-Fulton-Henry Counties Council	No	Not corrected. Repeated as finding 2003-001
2000-60135-02	Ohio Revised Code § 135.14 investing in corporate debt securities, commercial paper , demand instruments bank instruments and asset back securities not allowed	Yes	
2000-60135-003	Reportable Condition -Claims Paid Review	No	Not corrected. Repeated as finding 2003-002



**Auditor of State
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DEFIANCE-FULTON-HENRY COUNTIES COUNCIL

HENRY 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 6, 2003**