

PUTNAM COUNTY SCHOOLS INSURANCE GROUP

PUTNAM COUNTY

FINANCIAL STATEMENTS –CASH BASIS

For The Year Ended December 31, 2005



Mary Taylor, CPA
Auditor of State

Board of Trustees
Putnam County School Insurance Group
336 East Main Street
P.O. Box 190
Ottawa, Ohio 45875

We have reviewed the *Independent Auditors' Report* of the Putnam County School Insurance Group, Putnam County, prepared by Rea & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Putnam County School Insurance Group is responsible for compliance with these laws and regulations.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

February 2, 2007

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**PUTNAM COUNTY SCHOOLS INSURANCE GROUP
PUTNAM COUNTY**

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Rea & Associates, Inc.

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We're Ready For Your Future

June 22, 2006

The Board of Trustees
Putnam County Schools Insurance Group
Ottawa, Ohio 45875

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Putnam County Schools Insurance Group, Putnam County, Ohio (the Group), as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Group's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the Putnam County Schools Insurance Group, Putnam County, Ohio prepares its financial statements and notes on the basis of cash receipts and disbursements ("cash basis"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Putnam County Schools Insurance Group, Putnam County, Ohio as of December 31, 2005, and the respective changes in financial position for the fiscal year then ended in conformity with the basis of accounting as described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2006, on our consideration of the Government'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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The accompanying management's discussion and analysis and required supplementary information are not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

**PUTNAM COUNTY SCHOOLS
INSURANCE GROUP
PUTNAM COUNTY, OHIO**

Management's Discussion and Analysis
For the Calendar Year Ending December 31, 2005
(Unaudited)

The following report reflects on the financial condition of the Putnam County Schools Insurance Group (the "Group") for the calendar year ended December 31, 2005. Within the limitations of the Group's cash basis of accounting, this information is provided to enhance the information in the financial statements and the corresponding notes and should be reviewed in concert with that report

Financial Highlights, Year Ending December 31, 2005

- o Total revenues were \$7.24 million, representing contributions from 11 members during the period from January 1, 2005 through December 31, 2005.
- o Total net non-operating revenues were \$760,000 during the year.
- o Total expenses were \$6.8 million, with claims payments representing \$5.6 million, or 82%, stop loss premiums represented \$661,000, or 10% and administrative expenses represented 8%.
- o Projected claims and administrative expense liabilities were \$1.3 million at December 31, 2005.

Using these Cash-Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Group's cash basis of accounting. This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand the Group's activities. The *Statement of Net Assets – Cash Basis* and the *Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets* provide information about the activities of the Group.

Reporting the Group's Financial Activities

Statement of Net Assets – Cash Basis and Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets

These statements look at all financial transactions and ask the question, "How did we do financially during 2005?" The Statement of Net Assets – Cash Basis and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets – answer these questions.

These statements include only net cash assets using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the Group's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Group as a whole, the cash basis financial position of the Group has improved or diminished.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these cash-basis financial statements. Therefore, when reviewing the financial information and discussion

**PUTNAM COUNTY SCHOOLS
INSURANCE GROUP
PUTNAM COUNTY, OHIO**

Management's Discussion and Analysis
For the Calendar Year Ending December 31, 2005
(Unaudited)

within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

This year's financial statements were prepared on the cash basis utilizing the GASB Statement No. 34 presentation. The 2004 financial statements were prepared on a cash basis, but did not include the implementation of GASB 34 presentation. As a result, attempting to compare this year's data to last year's would be misleading to the reader. The Group will provide this comparative analysis in subsequent years.

The table below provides a summary of the Group's net cash assets at December 31, 2005.

Financial Analysis

Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Equity in pooled cash & investments	<u>\$ 1,263,362</u>	<u>\$ 818,827</u>
Total assets	<u>\$ 1,263,362</u>	<u>\$ 818,827</u>
Net Cash Assets		
Unrestricted	<u>\$ 1,263,362</u>	<u>\$ 818,827</u>
Total net cash assets	<u>\$ 1,263,362</u>	<u>\$ 818,827</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005 and 2004, the Group's net cash assets totaled \$1,263,362 and \$818,827 respectively.

**PUTNAM COUNTY SCHOOLS
INSURANCE GROUP
PUTNAM COUNTY, OHIO**

Management's Discussion and Analysis
For the Calendar Year Ending December 31, 2005
(Unaudited)

The table below shows the changes in net cash assets for the year ending December 31, 2005. Since this is the first year the Group has prepared financial statements following GASB Statement No. 34 presentation, receipt and disbursement comparisons to 2004 are not available. This table will present two years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the Group's financial status and possibly project future problems

Change in Net Cash Assets

	2005
Operating cash receipts	
Member contributions	\$ 7,236,162
Total operating revenue	7,236,162
Operating cash disbursements	
Claims	5,582,447
Insurance premiums	661,334
Administrative fees	553,943
Other	1,500
Total operating cash disbursements	6,799,224
Operating income	436,938
Non-operating cash receipts	
Interest income	7,597
Total non-operating cash receipts	7,597
Change in net cash assets	444,535
Beginning net assets	818,827
Ending net assets	\$ 1,263,362

**PUTNAM COUNTY SCHOOLS
INSURANCE GROUP
PUTNAM COUNTY, OHIO**

Management's Discussion and Analysis
For the Calendar Year Ending December 31, 2005
(Unaudited)

Current Financial Related Activities

The Group is a not-for-profit insurance group owned and operated by eleven school districts in Putnam County, Ohio. The Group's main source of receipts is premiums paid by the member school districts. The Group also receives interest receipts through investments.

The Insurance Group is committed to providing its member districts with the advantages of a larger buying cooperative, while maintaining control by the local district leadership. Providing coverage for all County schools is a priority for the Group and it is committed to managing the pool to protect the long-term financial interests of its members.

The Group requires its members to participate in the medical/prescription insurance program with individual district choice as to participation in the dental program. The Board of Trustees and its consultant, Sky Insurance, continually discuss program enhancements, long-term viability and management risks inherent in these insurance programs.

Like all employer-sponsored medical/dental insurance programs, the Group's most significant challenge is the current trend of double-digit increases in health care costs. As costs escalate, the Board is faced with the challenge of balancing the financial constraints facing Ohio's public school districts with offering a quality benefit program for its member's employees. This is further complicated by the fact that each school district in the Group (other than Brookhill MR/DD) must collectively bargain benefit levels with the respective employee unions. Even with these challenges, a collective approach to managing health care within the Group provides many advantageous over individually by school district.

Contacting the Group's Financial Management

This financial report is designed to provide our member districts and citizens with a general overview of the Group's finances and to show the Group's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Jan Osborn, Superintendent, Putnam County ESC, 336 East Main Street, Ottawa, Ohio 45875.

Putnam County Schools Insurance Group
Putnam County , Ohio

Statement of Cash Receipts, Cash Disbursements, and
Changes in Net Cash Assets
For the Fiscal Year Ended December 31, 2005

Operating cash receipts:	
Contributions from members	<u>\$ 7,236,162</u>
Total operating cash receipts	<u>7,236,162</u>
Operating cash disbursements:	
Professional Fees	1,500
Administrative fees	553,943
Insurance Premium for Coverages	661,334
Claims	<u>5,582,447</u>
Total operating cash disbursements	<u>6,799,224</u>
Operating income	<u>436,938</u>
Non-operating cash receipts:	
Interest Income	<u>7,597</u>
Total non-operating cash receipts	<u>7,597</u>
Change in cash net assets	444,535
Net cash assets at beginning of year	<u>818,827</u>
Net cash assets at end of year	<u><u>\$ 1,263,362</u></u>

See accompanying notes to the financial statements.

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 1 – Financial Reporting Entity

The Putnam County Schools Insurance Group, Putnam County, (the “Group”) is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10 and amended by GASB Statement No. 30 created to enable its eleven members (political subdivisions) to obtain insurance coverage, provide methods of paying claims and provide a formalized jointly administered self-insurance pool. Specifically, this Pool provides health and dental benefits to employees of its members.

The governing body of the Group is the Board of Trustees composed of the representatives of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of December 31, 2005, there were eleven participating members of the Group. The Board of Trustees and the treasurer of the fiscal agent (a non-voting, ex-officio member of the Board) shall function as the advisory body to the Group. It shall consist of two representatives of each member; one such member being an employer representative and the other shall be an employee representative.

The Group’s management believes these cash basis financial statements present all activities for which the Group is financially accountable.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.B, these financial statements are presented on a 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

For the year ended December 31, 2005, the Group has implemented the GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” format.

The Group’s financial statements consist of a statement of net assets and statement of cash receipts, cash disbursements and changes in net cash assets.

B. Basis of Accounting

The Group’s financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Group’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.

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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 Group 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 and 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 public policy, management control, accountability or other purposes.

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

C. Cash 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. Money market funds and federal agency securities are valued at cost.

For fiscal year 2005, the Group has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Group; however, disclosures in Note 3 have been revised to reflect this implementation.

D. Budgetary Process

The Group is not required to follow the budgetary process by law, but incorporated in the bylaws that on or before November 30 of each year the trustees shall determine the total estimated group costs for the next fiscal year, separately identifying the portion of the total estimated group costs to be allocated to each member.

E. Net Assets

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

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 3 – Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

The Group primarily funds to meet the basic monetary demands of its claims and administration payments and has not had any Inactive or Interim deposits to invest.

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio);

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 3 – Deposits and Investments (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Insurance Group, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Group's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At December 31, 2005, the carrying amount of the Group's deposits and the bank balance was \$1,263,362. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,163,362 was uninsured and collateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Note 4 – Risk Management

The Group contracts with a third party administrator, Medical Mutual of Ohio, to process and pay health claims and dental claims incurred by its members. Members pay monthly premiums to the Group based upon an annual estimate determined by the Executive Board. The Fiscal Officer issues payment to the third party administrator for actual insurance claims processed, stop-loss premiums, and administrative charges.

The Group employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Group to recover a portion of losses on claims from reinsurers, although it does not discharge their primary liability.

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.

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 4 – Risk Management (continued)

A comparison of the Group's cash and investments to the actuarially-measured liability as of December 31 follows:

	December 31, 2005	December 31, 2004
Cash and Investments	\$ 1,263,362	\$ 818,827
Actuarial liabilities	1,311,836	1,206,109

Note 5 – Contracted Services

The Group contracts with Sky Insurance to assist them with the annual renewals of its health and welfare plans. Sky Insurance also helps the Group and its members with maintaining the current plan of benefits including design, claim adjudication, customer service, billings 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 – Reserve for Claims Losses

Putnam County Schools Insurance Group, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In 2005, the Loss Reserve increased \$105,727 to \$1,311,836. The loss reserve percentage increased to 19.3% from 16.9%. Total expenses for the years ended December 31, 2005 and 2004, respectively were approximately \$6.8 million and \$7.1 million.

Changes in the Group's reserve for claims losses amount for the two previous years are as follows:

<u>Year</u>	<u>Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance</u>
2004	\$1,045,315	\$6,485,313	\$6,324,519	\$1,206,109
2005	1,206,109	6,242,117	6,136,390	1,311,836

PUTNAM COUNTY SCHOOLS INSURANCE GROUP
Putnam County, Ohio

Required Supplementary Information
Ten-Year Loss Development Information

	Fiscal and Accident Year		
	2003	2004	2005
Premiums and investment revenue:			
Earned	\$ 5,634,644	\$ 6,257,835	\$ 7,236,162
Ceded	(362,899)	(549,478)	(661,334)
Net earned	<u>5,271,745</u>	<u>5,708,357</u>	<u>6,574,828</u>
Unallocated expenses	0	0	0
Estimated losses and expenses, end of accident year:			
Incurred	5,606,215	6,584,166	6,133,483
Ceded	<u>0</u>	<u>0</u>	<u>0</u>
Net incurred	<u>5,606,215</u>	<u>6,584,166</u>	<u>6,133,483</u>
Net paid cumulative as of:			
End of accident year	5,527,734	6,246,038	5,802,923
One year later	5,606,215	6,584,166	
Two years later	5,606,215		
Re-estimated ceded losses and expenses	0	0	0
Re-estimated net incurred losses and expenses:			
End of accident year	5,606,215	6,584,166	6,133,483
One year later	5,606,215	6,584,166	
Two years later	5,606,215		
Increase (decrease) in estimated net incurred losses and expenses from end of accident year	0	0	0

Information prior to fiscal year 2003 not available

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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We're Ready For Your Future

June 22, 2006

Board of Trustees
Putnam County Schools Insurance Group
Ottawa, Ohio 45875

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Putnam County Schools Insurance Group (the Group) as of and for the year ended December 31, 2005, and have issued our report thereon dated June 22, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Group'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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group'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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Putnam County Schools Insurance Group in a separate letter dated June 22, 2006.

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

Rea & Associates, Inc.

Cambridge Columbus Coshocton Dublin Lima Marietta Millersburg Medina Mentor New Philadelphia Wooster

An Independent Member Firm of Moore Stephens International



Mary Taylor, CPA
Auditor of State

PUTNAM COUNTY SCHOOL INSURANCE GROUP

PUTNAM 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 15, 2007**