

Ashtabula County Schools
Council of Governments
Ashtabula County, Ohio

Audited Financial Statement

For the Fiscal Year Ended
June 30, 2017



Dave Yost • Auditor of State

Members of the Board
Ashtabula County Schools Council of Governments
1565 State Route 167
Jefferson, OH 44047

We have reviewed the *Independent Auditor's Report* of the Ashtabula County Schools Council of Governments, Ashtabula County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. 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 Ashtabula County Schools Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 29, 2017

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**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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September 8, 2017

To Those Charged with Governance
Ashtabula County Schools Council of Governments
1565 State Route 57
Jefferson, Oh 44047

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Ashtabula County Schools Council of Governments, Ashtabula County, Ohio (the "Council"), as of and for the year ended June 30, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the Council prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position and results of operations, of the Council as of and for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2017 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.

Rea & Associates, Inc.

Medina, Ohio

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General
RECEIPTS:	
Receipts from Members Districts	\$ 17,181,484
Interest	58,877
Stop Loss Insurance Reimbursements	175,077
Voids/Refunds	56,317
COBRA Payments	42,859
 Total Receipts	 17,514,614
 DISBURSEMENTS:	
Payments to Third-Party Administrator	15,929,571
Purchased Services	33,025
Materials and Supplies	354
Insurance	350
Liability Expenses	3,079
Actuarial Report	1,000
Miscellaneous	9,333
Service Fees	134,024
Affordable Care Act Transitional Reinsurance Program	53,111
Health Action Council Annual Access Fee	3,641
 Total Disbursements	 16,167,488
 Excess of Receipts over Disbursements	 1,347,126
 FUND CASH BALANCES, July 1, 2016	 18,213,808
 FUND CASH BALANCES, June 30, 2017	
Unassigned	\$ 19,560,934

The accompanying notes are an integral part of this financial statement.

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 – DESCRIPTION OF THE ENTITY

The Ashtabula County Schools Council of Governments, Ashtabula 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 (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 care benefits for member employees in accordance with the Council by-laws.

The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2017 there were seven participating 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 flow, resulting in a transfer of all risk. The Board of Directors annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made under the Health Benefits Plan by covered persons which would not be paid aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code 117-02-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the Council has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

B. 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 maintains a general fund to account for its expendable financial resources and related current expenses.

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

C. Budgetary Process

The Council is not required to follow the budgetary process but has adopted a formal budget annually as part of their by-laws.

Appropriations

Budgetary Expenditures (disbursements) may not exceed appropriations at the line item level by more than 10 percent. Appropriations may not exceed income on an annual basis from any fund without prior approval of the Council. The Council annually approves appropriations.

Estimated Resources

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

D. Cash and Investments

Investments are reported as assets and are carried at cost, which approximates fair value. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Council must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Council classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

The Board can *commit* amounts via formula action (resolution). The Council must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

4. Assigned

Assigned fund balances are intended for specific purpose but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* amounts represent intended uses established by Council or a Council official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance. The Council applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used.

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Council maintains a cash pool used by all funds. The Council has adopted an investment policy following the deposits and investments as prescribed by the Ohio Revised Code. The carrying amount of cash at June 30 was as follows:

	2017
Demand Deposits	\$ 13,560,934
CDARS	6,000,000
Total Deposits and Investments	<u>\$ 19,560,934</u>

Custodial credit risk for deposits is the risk that in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Council from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation.

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 – BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2017 follows:

2017 Budgeted vs. Actual Receipts		
<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
\$ 17,514,614	\$ 17,514,614	\$ 0

2017 Budgeted vs. Actual Expenditures		
<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
\$ 16,167,488	\$ 16,167,488	\$ 0

NOTE 5 - RISK MANAGEMENT

The Council contracted with a third party administrator, Anthem Benefit Administrators, Inc. for the year ended June 30, 2017, 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. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Council members. Member school districts, whose claims exceed premiums paid, will carry a negative fund balance for which interest is assessed on. When the balance is no longer negative, interest will no longer be assessed.

The Council employs 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 reinsurers, although it does not discharge their primary liability.

NOTE 6 - EXPECTED LOSS AND ALLOCATED LOSS ADJUSTMENT EXPENSE

The Council receives an annual actuarial report that estimates an amount for the runoff liability (expected loss and allocated loss adjustment expense) for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the year ended June 30, 2017. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at June 30, 2017 is as follows:

	<u>2017</u>
Cash and Investments	\$19,560,934
IBNR Actuarial Liabilities	<u>\$ 1,525,000</u>
Excess Funds	<u><u>\$18,035,934</u></u>

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Council to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For the fiscal year 2017, the Council prepared financial statements that report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes 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. Pursuant to Ohio Rev. Code, Section 117.35, the Council may be fined and subject to various other administrative remedies for its failure to file the required financial report.

September 8, 2017

To Those Charged with Governance
Ashtabula County Schools Council of Governments
1565 State Route 57
Jefferson, Oh 44047

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

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 financial statements of Ashtabula County Schools Council of Governments, Ashtabula County, Ohio (the "Council") as of and for the year ended June 30, 2017 and the related notes to the financial statements. We have issued our report thereon dated September 8, 2017, wherein we issued an adverse opinion on the council's accompanying financial statements because they do not present fairly the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

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 matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2017-001.

Council's Response to Findings

The Council's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Council's response and, accordingly, we express no opinion on it.

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 communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Ashtabula County Schools Council of Governments
Ashtabula, Ohio
Schedule of Findings
June 30, 2017

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

Finding Number: 2017-001 - **Material Non-Compliance**

Criteria: Ohio Rev. Code Section 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 to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The School District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from GAAP. There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the School District being fined or other administrative remedies.

Condition: The Council did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2017, the Council prepared its financial statements in accordance with standards established by the Auditor of State; however, the Council is required to prepare annual reports in accordance with generally accepted accounting principles.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Council may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the Council review the applicable codes and ensure preparation of its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The Council will not prepare a Corrective Action Plan since there is no intention to report the financial statements in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

**ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS
ASHTABULA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Noncompliance with ORC 117.38 and 117-2-03(B)	Not Corrected	There is no intention of the Council to report the financial statements in accordance with generally accepted accounting principles (GAAP) due to the cost saving benefits of reporting on a regulatory basis.



Dave Yost • Auditor of State

ASHTABULA COUNTY SCHOOLS COUNCIL OF GOVERNMENTS

ASHTABULA 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
OCTOBER 24, 2017**