



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance – Enterprise Fund – For the Fiscal Year Ended June 30, 2002	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance – Enterprise Fund – For the Fiscal Year Ended June 30, 2001	4
Notes to the Financial Statements	5
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	9

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REPORT OF INDEPENDENT ACCOUNTANTS

Preble County Schools Regional Council of Governments
Preble County
101 East Main Street
Eaton, OH 45320

To the Council of Governments:

We have audited the accompanying financial statements of Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), as of and for the years ended June 30, 2002 and 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 discussed 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 balances of the Council as of June 30, 2002 and 2001, 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, 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 the Audit Committee, management, the Council 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

October 9, 2002

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Operating Cash Receipts:</u>	
Health Benefit Premium Deposits	<u>\$657,174</u>
Total Operating Cash Receipts	657,174
<u>Operating Cash Disbursements:</u>	
Medical Claims	420,051
Management Fees	4,440
Bank Fees	490
Advertising Fee	<u>9</u>
Total Operating Cash Disbursements	<u>424,990</u>
Excess of Operating Cash Receipts Over Operating Cash Disbursements	232,184
<u>Non-Operating Cash Receipts:</u>	
Interest	<u>69,335</u>
Total Non-Operating Cash Receipts	<u>69,335</u>
Excess of Receipts Over Disbursements	<u>301,519</u>
Fund Cash Balance, July 1, 2001	<u>2,602,573</u>
Fund Cash Balance, June 30, 2002	<u><u>\$2,904,092</u></u>

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

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Operating Cash Receipts:

Health Benefit Premium Deposits	<u>\$593,582</u>
Total Operating Cash Receipts	593,582

Operating Cash Disbursements:

Medical Claims	448,144
Management Fees	4,730
Bank Fees	527
Audit Fees	<u>2,176</u>

Total Operating Cash Disbursements	<u>455,577</u>
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Excess of Operating Cash Receipts Over Operating Cash Disbursements	138,005
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Non-Operating Cash Receipts:

Interest	<u>145,972</u>
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Total Non-Operating Cash Receipts	<u>145,972</u>
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Excess of Receipts Over Disbursements	<u>283,977</u>
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Fund Cash Balance, July 1, 2000	<u>2,318,596</u>
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Fund Cash Balance, June 30, 2001	<u>\$2,602,573</u>
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The notes to the financial statements are an integral part of this statement.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Preble County Schools Regional Council of Governments, Preble County, Ohio (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 an insurance-purchasing public entity risk pool as defined by paragraphs 10 and 13b of the Governmental 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 cooperative programs, which may be approved in accordance with the Council by-laws.

The Council Governing Board is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member district. As of June 30, 2002 there were 6 members of the Council.

The Preble County Schools have agreed to an alternate funding arrangement for medical benefits. The program remains insured and is called Contingent Premium, which is a reduced pre-payment form of insurance with an annual settlement.

Funds received by the Council consist of medical premium rates for each of the member school districts' participating employees. Rates are contingent upon the level of claims utilization. The Council operates in the following manner:

1. Each member school district pays a monthly contingent premium rate to the insurance carrier for single and family units covered.
2. The fiscal agent deposits the difference between the Risk Premium rate and the Contingent Premium rate into a Council bank account each month.
3. Within six months of the end of the contract renewal (March of each year) an annual settlement will be made which will compare the contingent premium, risk premium, incurred claims, retention charges and all other data required for settlement in determination of the liability, if any, to the insurance carrier. The Council's liability will be determined in the following manner:
 - A. If the incurred claims plus retention is greater than cumulative contingent premium, no payment shall be due from either party.
 - B. If the incurred claims plus retention is greater than the cumulative contingent premium, but less than the cumulative risk premium, the Council would pay the insurance carrier the difference between the incurred claims plus retention and the cumulative contingent premium.
 - C. If the incurred claims plus retention exceeds the cumulative risk premium, the Council shall pay the difference between the cumulative risk premium and the cumulative contingent premium, and the amount in excess of the risk premium shall become the liability of the insurance carrier.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Council Governing Board is the advisory body of the Council. It consists of the authorized representative of each member public school district, which is the superintendent or his/her designate. Among other responsibilities, the Governing Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Governing Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations related to member program costs and adjustments.

The Council Agreement can be terminated by two-thirds vote of the Governing Board. Upon such termination, the excess funds of any employee benefit trust, if any, left after payment of the obligations of such trust and the payment of the reasonable and necessary expenses incurred in termination of such trust, shall be used toward the initial cost of whatever insurance provider or insurance vehicle replaces such trust for each member district at the time of termination. Any such distributions for the benefit of a member district shall be in proportion to the total contributions made by such member district while a member of the Council to the total contributions made by all member districts while members of the Council.

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.

C. CASH AND INVESTMENTS

The Council invested in STAR Ohio (the State Treasurer's investment pool) which is recorded at share values reported by the State Treasurer.

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 charge; or (b) where the governing board 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.

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

2. CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of investments at June 30, 2002 and 2001 was as follows:

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Investments:		
Star Ohio	<u>\$2,904,092</u>	<u>\$2,602,573</u>

INVESTMENTS

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. RISK MANAGEMENT

The Council contracts with:

1. Advanced Benefit Planning, Inc., a consulting/brokerage firm to provide expertise in the area of health care benefits and funding arrangements with Anthem Blue Cross and Blue Shield;
2. Pohlman and Talmage, a local CPA firm to monitor the revenue and disbursements from all member districts in the Council's reserve account; and
3. Cobra Compliance, Inc., provides expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants.

4. RISK LIABILITY

Contingent premium is a pre-payment form of insurance with an annual settlement. The member districts pay Anthem Blue Cross and Blue Shield 85% of the conventional fully insured rates with a maximum liability of 110% of the conventional fully insured rates. This alternate funding arrangement insured through Anthem Blue Cross and Blue Shield requires an annual settlement within six months of the contract renewal.

The amount of liability is pre-determined each contract year (September 1). The estimated liability for the contract year September 1, 2001 through August 31, 2002 is \$1,110,571.08 due in the spring of 2003; the estimated liability for the contract year September 1, 2002 through August 31, 2003 is \$1,477,088.76 due in the spring of 2004. These estimated liabilities are higher than in past year's due to increased claims utilization.

Since the Council's inception in September 1992, the account cash balance has exceeded the estimated liability established by Anthem Blue Cross and Blue Shield.

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

Preble County Schools Regional Council of Governments
Preble County
101 East Main Street
Eaton, OH 45320

To the Council of Governments:

We have audited the accompanying financial statements of Preble County Schools Regional Council of Governments, Preble County, Ohio (the Council), as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated October 9, 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.

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

This report is intended solely for the information and use of the Audit Committee, management, and the Council 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

October 9, 2002



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PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

PREBLE 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 7, 2002**