

**Scioto County Schools Council**

Scioto County

Regular Audit

July 1, 2003 through June 30, 2005

Fiscal Years Audited Under GAGAS: 2005 - 2004

**BALESTRA, HARR & SCHERER, CPAs, INC.**

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**Auditor of State  
Betty Montgomery**

Board of Directors  
Scioto County Schools Council  
411 Court Street  
Portsmouth, Ohio 45662

We have reviewed the *Independent Auditor's Report* of the Scioto County Schools Council, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2003 through June 30, 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Scioto County Schools Council is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

October 26, 2006

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**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY, OHIO  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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**Independent Auditor's Report**

Scioto County Schools Council  
411 Court Street  
Portsmouth, Ohio 45662

We have audited the accompanying financial statements of the Scioto County Schools Council, Scioto County, Ohio, (the Council) as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the Government'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 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 opinion.

As described more fully in Note 1, the government has prepared these financial statements using the cash basis of accounting. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP require the Council to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2005 and 2004. While the Council does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to reformat its statements. Since the Council does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts are materially misstated under accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above for the years ended June 30, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Government's proprietary fund as of June 30, 2005 or June 30, 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance of the Scioto County Schools Council, Scioto County, as of June 30, 2005 and June 30, 2004, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Council to include Management's Discussion & Analysis for the years ended June 30, 2005 and 2004. The Council has not presented Management's Discussion & Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Independent Auditor's Report  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 15, 2006

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash Receipts:</b>		
Charges for Insurance	10,937,848	11,026,343
Earnings on Investments	154,278	135,494
Miscellaneous Receipts	193	5,811
Total Cash Receipts	11,092,319	11,167,648
<b>Cash Disbursements:</b>		
Claims Payments	10,034,417	8,541,030
TPA Fees/Stop-Loss Premiums	996,442	1,046,338
Purchased Services	75,866	73,718
Supplies	109	0
Total Cash Disbursements	11,106,834	9,661,086
Total Cash Receipts Over/(Under) Cash Disbursements	(14,515)	1,506,562
Cash Balance, July 1	7,940,020	6,433,458
<b>Cash Balance, June 30</b>	<b>\$7,925,505</b>	<b>\$7,940,020</b>

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



**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Scioto County Schools Council, Scioto County (the Council), a Regional Council of Governments organized under Ohio Revised Code Chapter 167, was created for the purpose of establishing and administering a cooperative health insurance program. 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.

The Board of Directors is the legislative and managerial body of the Council. The Board of Directors is composed of representatives from member school districts who have been appointed by their respective school district (normally the Superintendent).

The Board of Directors appoints a Board of Education of a member district, with the consent of the said Board of Education, as the Fiscal Agent for the Council. The Treasurer of the Fiscal Agent shall be the Treasurer of the Council. The South Central Ohio Educational Service Center serves as the Fiscal Agent for the Council.

The Council's management believes this financial statement presents all activities for which the Council is financially accountable.

**B. Basis of Accounting**

This financial statement follows the cash basis of accounting, 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.

This statement includes adequate disclosure of material matters.

**C. Cash and Investments**

To improve cash management, all cash received by the Council is pooled. Monies are either maintained in one of two checking accounts or temporarily used to purchase short term investments. During fiscal years 2005 and 2004, investments were limited to U.S. Government Securities and STAROhio (the state investment pool).

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<u>Average Maturity</u> (years)	<u>2005</u>	<u>2004</u>
Demand Deposits		\$1,618,784	\$1,715,335
Investments			
STAROhio	Less than 1	644,639	631,631
Money Market Account	Less than 1	77,899	3,750
U.S. Government Securities:			
Federal National Mortgage Association Bonds	1 to 5	3,010,067	3,010,067
Federal Home Loan Mortgage Corporation Bonds	1 to 5	1,572,398	1,577,519
Federal Home Loan Banks Bonds	1 to 5	<u>1,001,718</u>	<u>1,001,718</u>
Total Investments		<u>6,306,721</u>	<u>6,224,685</u>
Total Deposits and Investments		<u>\$7,925,505</u>	<u>\$7,940,020</u>

**Deposits:** Deposits are either insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool. Deposits not insured by the Federal Deposit Insurance Corporation are exposed to custodial credit risk. 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.

**Investments:** The Council's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in a physical or book entry form.

The Council's investments in the Money Market Account are unsecured.

The Council's investments in the U.S. Government Securities are secured by the securities purchased. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank Bonds are held in book-entry form by the Federal Reserve, in the name of the Educational Service Center.

**3. RISK MANAGEMENT**

The Council is a regional council of governments organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health and dental insurance program. The Council, which is open to any board of education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors also purchases stop loss coverage for claims in excess of a set amount both for individual claims and in the aggregate. At June 30, 2005 the attachment point for individual claims was \$200,000 for each covered individual. The aggregate attachment point is calculated based on the number of covered individuals. At June 30, 2005, the aggregate attachment point was \$910.84 per contract for medical coverage.

**SCIOTO COUNTY SCHOOLS COUNCIL  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004  
(Continued)**

**3. RISK MANAGEMENT (Continued)**

Each member of the Council is obligated to pay a fee based on an estimate of the member's share of the Council costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health and dental insurance stop-loss premiums, and their proportionate share of the administrative cost of the Council.

Member schools may withdraw from the Council at the end of any fiscal year upon notification to the Fiscal Agent by September 15 in the fiscal year preceding the fiscal year in which the member will withdraw, and may be removed for failure to make the required payments. Upon withdrawal, the withdrawing member forfeits all funds paid into the Health Benefit Plan and shall assume and be responsible for payment of all claims of its eligible employees incurred through the withdrawal date.

**4. ACTUARIAL REPORT**

Actuarial Valuations of Claim Liability and Funded Status were performed for the years ended June 30, 2005 and 2004. The purpose of the valuations is to estimate claims that have been incurred, whether reported at June 30 or not, under the Scioto County Schools Council dental, health and prescription drug plans as of a valuation date, to compare its liability to funds reserved. Information regarding the funding status as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Cash and Investments at June 30	\$7,925,505	\$7,940,020
Actuarial Liability at June 30	<u>1,843,100</u>	<u>1,760,600</u>
Net Excess/(Deficit)	<u>\$6,082,405</u>	<u>\$6,179,420</u>

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Scioto County Schools Council  
Scioto County, Ohio  
411 Court Street  
Portsmouth, Ohio 45662

We have audited the financial statements of the Scioto County Schools Council (the Council), as of and for the years ended June 30, 2005 and 2004 and have issued our report thereon dated September 15, 2006, wherein we noted the Council followed the cash basis of accounting rather than accounting principles generally accepted in the United States of America. 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.

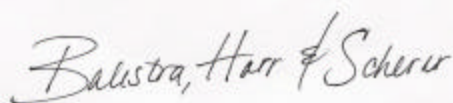
### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 an opinion 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 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 Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

This report is intended solely for the information and use of the audit committee, management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

September 15, 2006



**Auditor of State  
Betty Montgomery**

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**SCIOTO COUNTY SCHOOLS COUNCIL**

**SCIOTO 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 9, 2006**