

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO**

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CHRISTINE WAGNER, TREASURER



Dave Yost • Auditor of State

Board of Directors
Ohio School Benefits Cooperative
205 N. 7th Street
Zanesville, Ohio 43701

We have reviewed the *Independent Accountants' Report* of the Ohio School Benefits Cooperative, Muskingum County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. 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 Accountants' 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 Accountants' 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 Ohio School Benefits Cooperative is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

April 30, 2012

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**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Accountants' Report	1 - 2
Statement of Cash Receipts, Disbursements and Changes in Cash Balance for the Fiscal Year Ended June 30, 2011	3
Notes to the Financial Statement	4 - 6
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	7 - 8

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report

Members of the Board of Directors
Ohio School Benefits Cooperative
205 N. 7th Street
Zanesville, Ohio 43701

We have audited the accompanying financial statement of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal year ended June 30, 2011. This financial statement is the responsibility of the Ohio School Benefits Cooperative's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Ohio School Benefits Cooperative prepared this financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statement presents, GAAP require presenting entity wide statements and also presenting the Ohio School Benefits Cooperative's larger (i.e. major) funds separately. While the Ohio School Benefits Cooperative does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statement does not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Ohio School Benefits Cooperative has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the 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 two paragraphs, the financial statement referred to above for the fiscal year ended June 30, 2011, does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Ohio School Benefits Cooperative, Muskingum, County, Ohio, or its changes in financial position or cash flows for the fiscal year then ended.

Independent Accountants' Report
Ohio School Benefits Cooperative
Page Two

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash fund balance of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal year ended June 30, 2011, and its combined cash receipts and disbursements for the fiscal year then ended on the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012, on our consideration of the Ohio School Benefits Cooperative'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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 "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 26, 2012

OHIO SCHOOL BENEFITS COOPERATIVE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

OPERATING CASH RECEIPTS	
Member Contributions	\$ 17,238,086
Member Dues	<u>2,500</u>
Total Operating Cash Receipts	<u>17,240,586</u>
OPERATING CASH DISBURSEMENTS	
Claims paid	11,365,254
Stop loss fees	3,320,650
Administrative fees	1,003,251
Brokerage service fees	779,259
Legal fees	70,737
Fiscal agent fees	33,454
Miscellaneous Fees	<u>18,651</u>
Total Operating Cash Disbursements	<u>16,591,256</u>
Excess of operating cash receipts over/(under) operating disbursements	<u>649,330</u>
NON-OPERATING CASH RECEIPTS	
Investment Receipts	<u>8,581</u>
Total Non-Operating Receipts	<u>8,581</u>
Change in cash balance	657,911
CASH BALANCE AT BEGINNING OF YEAR	<u>2,981,176</u>
CASH BALANCE AT END OF YEAR	<u><u>\$ 3,639,087</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - DESCRIPTION OF THE COOPERATIVE

The Ohio School Benefits Cooperative, Muskingum County, (the "Cooperative") is a legally separate entity organized under Ohio Revised Code Section 9.833. The Cooperative was established on February 7, 2006, formed by Boards of Education of several school districts in southeast Ohio, for the purpose of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverage for their employees and the eligible dependents and designated beneficiaries of such employees.

The Cooperative 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 Cooperative bylaws.

The Governing Board of the Cooperative is a Board of Directors composed of the Superintendents and Treasurers of the member districts. Each spring, a meeting of the General Membership is held, during which the Board of Directors is elected. The Board consists of nine representatives, of which three representatives serve three year terms, three representatives serve two years terms and three representatives serve one year terms. All representatives serve without compensation. As of June 30, 2011, there were 21 participating members of the Cooperative.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

These financial statements follow the cash basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. All transactions are accounted for in a single enterprise fund. This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

B. Cash and Investments

Investments are included in cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as investment receipts.

C. Member and Supplemental Contributions

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative expenses of the Cooperative and to create reserves for claims and unallocated loss adjustment disbursements. Under the terms of membership, should annual member contributions not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative disbursements, the Board of Directors can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Cooperative and any later period when claims or disbursements need to be paid which are attributable to any membership year during which the event or claim occurred.

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS

The carrying amount of deposits and investments at June 30 was as follows:

	2011
Demand Deposits	\$ 3,287,543
Certificates of Deposit	151,544
FNMA	200,000
 Total Deposits and Investments	 \$ 3,639,087

A. Deposits

At June 30, 2011, the carrying amount of the Cooperative's deposits was \$3,439,087 and the bank balance was \$3,439,087. Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Cooperative, or (3) collateralized by the financial institution's public entity deposit pool.

B. Investments

As of June 30, 2011, the Cooperative had the following investments and maturities:

Investment type	Cost Basis	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 30 months
FNMA	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Cooperative's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Cooperative's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Cooperative's investment policy does not specifically address credit risk beyond requiring the Cooperative to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Cooperative's name. The Cooperative has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - RISK MANAGEMENT

The Cooperative contracts with a third party administrator, Medical Mutual of Ohio, to process and pay claims, incurred by its members. Members pay monthly premiums to the Cooperative based upon each member's individual rating. The Treasurer issues payments to the third party administrator for actual insurance claims processed, stop-loss premiums, and administrative charges.

The Cooperative employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Cooperative to recover a portion of losses on claims from re-insurers, 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 loss reserve are critical to the determination as to whether funds are adequate.

A comparison of the Cooperative's cash and investments to the actuarially-measured liability as of June 30, 2011 follows:

	<u>June 30, 2011</u>
Cash and Investments	\$ 3,639,087
Actuarial Loss Reserve	1,939,000



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**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required By *Government Auditing Standards***

Members of the Board of Directors
Ohio School Benefits Cooperative
205 N. 7th Street
Zanesville, Ohio 43701

We have audited the financial statement of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated January 26, 2012, wherein we noted the Ohio School Benefits Cooperative followed accounting practices the Auditor of State prescribes or permits 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 the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio School Benefits Cooperative's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of opining on the effectiveness of the Ohio School Benefits Cooperative's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Ohio School Benefits Cooperative's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Ohio School Benefits Cooperative's financial statement will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board of Directors
Ohio School Benefits Cooperative

Compliance and Other Matters

As part of reasonably assuring whether the Ohio School Benefits Cooperative's financial statement is 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, 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 or other matters we must report under *Government Auditing Standards*.

We intend this report is solely for the information and use of the Board of Directors and management of the Ohio School Benefits Cooperative. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 26, 2012



Dave Yost • Auditor of State

OHIO SCHOOL BENEFITS COOPERATIVE

MUSKINGUM 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
MAY 10, 2012**