

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

**AUDITED FINANCIAL STATEMENTS**

*FOR THE FISCAL YEAR ENDED JUNE 30, 2012*

**CHRISTINE WAGNER, TREASURER**





# Dave Yost • Auditor of State

Board of Directors  
Ohio Schools Benefit Cooperative  
205 N. 7th Street  
Zanesville, Ohio 43701

We have reviewed the *Independent Accountants' Report* of the Ohio Schools Benefit Cooperative, Muskingum County, prepared by Julian & Grube, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Schools Benefit 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

December 20, 2012

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

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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. 7<sup>th</sup> 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, 2012, as listed in the table of contents. 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, 2012, 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, as of June 30, 2012, 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 June 30, 2012, 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 September 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." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.  
September 26, 2012

OHIO SCHOOL BENEFITS COOPERATIVE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<b>OPERATING CASH RECEIPTS</b>	
Member Contributions	\$ 21,567,119
Member Dues	<u>1,500</u>
<b>Total Operating Cash Receipts</b>	<u>21,568,619</u>
<b>OPERATING CASH DISBURSEMENTS</b>	
Claims paid	16,141,541
Stop loss fees	2,911,342
Administrative fees	1,118,624
Brokerage service fees	739,648
Legal fees	76,922
Fiscal agent fees	37,876
Miscellaneous Fees	<u>15,234</u>
<b>Total Operating Cash Disbursements</b>	<u>21,041,187</u>
<b>Excess of operating cash receipts over/(under) operating disbursements</b>	<u>527,432</u>
<b>NON-OPERATING CASH RECEIPTS</b>	
Investment Receipts	<u>5,726</u>
<b>Total Non-Operating Receipts</b>	<u>5,726</u>
<b>Change in cash balance</b>	533,158
<b>CASH FUND BALANCE AT BEGINNING OF YEAR</b>	<u>3,639,087</u>
<b>CASH FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 4,172,245</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, 2012

**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, 2012, there were 20 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. The Cooperative had no investments at June 30, 2012.

**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, 2012

**NOTE 3 - DEPOSITS**

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

	<u>2012</u>
Demand Deposits	\$ 4,172,245

**Deposits**

At June 30, 2012, the carrying amount of the Cooperative's deposits and the bank balance was \$4,172,245. 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.

**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, 2012 follows:

	<u>June 30, 2012</u>
Cash and Investments	\$ 4,172,245
Actuarial Loss Reserve	1,434,000



**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 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. 7<sup>th</sup> 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, 2012, and have issued our report thereon dated September 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.  
September 26, 2012

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# Dave Yost • Auditor of State

**OHIO SCHOOLS 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  
DECEMBER 31, 2012**