

**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO**

***FINANCIAL STATEMENT
(AUDITED)***

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

NICK ROBERTS, TREASURER



Dave Yost • Auditor of State

Board of Directors
Pickaway County Public Employee Benefits Program
9579 Tarlton Road
Circleville, Ohio 43113

We have reviewed the *Independent Accountants' Report* of the Pickaway County Public Employee Benefits Program, Pickaway County, prepared by Julian & Grube, Inc., for the audit period July 1, 2012 through June 30, 2013. 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 Pickaway County Public Employee Benefits Program is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 26, 2013

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**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report

Pickaway County Public Employee Benefits Program
9579 Tarlton Road
Circleville, Ohio 43113

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statement and related notes of the Pickaway County Public Employee Benefits Program, Pickaway County, Ohio as of and for the year ended June 30, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for preparing and fairly presenting this financial statement in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on this financial statement 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 Pickaway County Public Employee Benefits Program'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 Pickaway County Public Employee Benefits Program'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 the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Pickaway County Public Employee Benefits Program prepared this financial statement using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statement 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 presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Pickaway County Public Employee Benefits Program as of June 30, 2013, or changes in financial position or cash flows thereof for the fiscal year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of the Pickaway County Public Employee Benefits Program, Pickaway County, Ohio, as of June 30, 2013, and its cash receipts and disbursements for the fiscal year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, on our consideration of the Pickaway County Public Employee Benefits Program'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 Pickaway County Public Employee Benefits Program's internal control over financial reporting and compliance.



Julian & Grube, Inc.
October 16, 2013

PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OPERATING CASH RECEIPTS	
Member Contributions	\$ 12,501,399
Stop Loss Receipts	891,441
Rebates	<u>44,318</u>
Total Operating Cash Receipts	<u>13,437,158</u>
OPERATING CASH DISBURSEMENTS	
Claims Paid	10,537,835
Stop Loss Fees	698,734
Administrative Fees	466,307
Brokerage Service Fees	84,919
Miscellaneous Fees	<u>40,482</u>
Total Operating Cash Disbursements	<u>11,828,277</u>
Excess of Operating Cash Receipts Over/(Under) Operating Disbursements	<u>1,608,881</u>
NON-OPERATING CASH RECEIPTS	
Investment Receipts	11,754
Stabilization/Reserve Receipts	<u>609,652</u>
Total Non-Operating Cash Receipts	<u>621,406</u>
Change in Cash Fund Balance	2,230,287
CASH FUND BALANCE AT BEGINNING OF YEAR	<u>3,300,702</u>
CASH FUND BALANCE AT END OF YEAR	<u><u>\$ 5,530,989</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - DESCRIPTION OF THE PROGRAM

The Pickaway County Public Employee Benefits Program (the "Program") is a legally separate entity organized under Ohio Revised Code Section 9.833. The Program was established on July 1, 2009, formed by the boards of education of the Circleville City, Logan Elm Local, Teays Valley Local and Westfall Local school districts for the provision of health care and dental benefits (effective July 1, 2011) to the eligible officials and employees of those districts and their eligible dependents.

The Program 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 Program bylaws.

The governing body of the Program is the Board of Directors. Each member is represented on the Board of Directors by their superintendent or his or her designee. All representatives serve without compensation.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

This financial statement follows 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 claims, insurance premiums and administrative costs of the Program, and to create and maintain reserves. Under the terms of membership, the Directors may also include any other adjustments to the Program costs to be paid by any member or all members that it believes are necessary or appropriate for the prudent management of the Program, including allowance for wellness programs and other related programs or services.

**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	<u>2013</u>
Demand Deposits	\$ 699,868
STAR Ohio	2,807,909
Money Market	9,156
Agency Notes	<u>2,014,056</u>
 Total Deposits and Investments	 <u>\$ 5,530,989</u>

A. Deposits

At June 30, 2013, the carrying amount and bank balance of the Program's deposits was \$699,868. Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Program, or (3) collateralized by the financial institution's public entity deposit pool.

B. Investments

As of June 30, 2013, the Program had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 30 months</u>
FHLB	\$ 734,713	\$ 599,803	\$ 134,910	\$ -	\$ -
FHLMC	254,988	-	-	124,988	130,000
FHLMC Discount Note	199,740	-	199,740	-	-
FNMA	604,615	99,716	-	-	504,899
STAR Ohio	2,807,909	2,807,909	-	-	-
U.S. Government Money Market	9,156	9,156	-	-	-
U.S. Treasury Note	<u>220,000</u>	<u>-</u>	<u>220,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,831,121</u>	<u>\$ 3,516,584</u>	<u>\$ 554,650</u>	<u>\$ 124,988</u>	<u>\$ 634,899</u>

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 Program's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The Program's investment in U.S. Government money market funds carries a rating of AAA by Standard & Poor's. The Program's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Program's investment policy does not specifically address credit risk beyond requiring the Program to only invest in securities authorized by State statute.

**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program 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 and treasury bills 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 Program's name. The Program 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.

Concentration of Credit Risk: The Program places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Program at June 30, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 734,713	15.21
FHLMC	254,988	5.28
FHLMC - Discount Note	199,740	4.13
FNMA	604,615	12.52
U.S. Government money market	9,156	0.19
U.S. Treasury note	220,000	4.55
STAR Ohio	<u>2,807,909</u>	<u>58.12</u>
Total	<u>\$ 4,831,121</u>	<u>100.00</u>

NOTE 4 - RISK MANAGEMENT

The Program contracts with a third party administrator, United Healthcare, to process and pay claims incurred by its members. Members pay monthly premiums to the Program based upon their plan design, the overall experience of the pool, and each member's individual rating. The Treasurer issues payments to the third party administrator for actual insurance claims processed and administrative charges.

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

A comparison of the Program's cash and investments to the actuarially-measured liability as of June 30, 2012 follows:

	<u>June 30, 2013</u>
Cash and Investments	\$ 5,530,989
Actuarial Loss Reserve	955,500



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards***

Pickaway County Public Employee Benefits Program
9579 Tarlton Road
Circleville, Ohio 43113

To the Board of Directors:

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*, of the Pickaway County Public Employee Benefits Program, Pickaway County, Ohio, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated October 16, 2013 wherein we noted the Pickaway County Public Employee Benefits Program followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Pickaway County Public Employee Benefits Program'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 statement, but not to the extent necessary to opine on the effectiveness of the Government'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 Pickaway County Public Employee Benefits Program's financial statement. 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.

Board of Directors
Pickaway County Public Employee Benefits Program

Compliance and Other Matters

As part of reasonably assuring whether the Pickaway County Public Employee Benefits Program'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, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 Pickaway County Public Employee Benefits Program's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Pickaway County Public Employee Benefits Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
October 16, 2013

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Dave Yost • Auditor of State

PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM

PICKAWAY 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 10, 2013