

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO
FINANCIAL STATEMENT
(AUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CHRISTINE WAGNER, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Ohio School Benefits Cooperative, Muskingum County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 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

October 1, 2014

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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 Auditor's Report

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

To the Members of the Board of Directors:

Report on the Financial Statement

We have audited the accompanying financial statement and related notes of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal year ended June 30, 2014.

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(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting the financial statement 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 statement is free from material misstatement.

An audit requires obtaining evidence about the 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 Ohio School Benefits Cooperative'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 Ohio School Benefits Cooperative'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 statement, the Ohio School Benefits Cooperative 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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these 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 Ohio School Benefit Cooperative as of June 30, 2014, 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 Ohio School Benefits Cooperative, Muskingum County, Ohio, as of June 30, 2014, 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(D) 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 August 28, 2014, 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. 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 Ohio School Benefits Cooperative's internal control over financial reporting and compliance.



Julian & Grube, Inc.
August 28, 2014

OHIO SCHOOL BENEFITS COOPERATIVE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

OPERATING CASH RECEIPTS	
Member Contributions	\$ 38,563,011
Stop-Loss Refunds	1,787,580
Member Dues	<u>3,500</u>
Total Operating Cash Receipts	<u>40,354,091</u>
OPERATING CASH DISBURSEMENTS	
Claims paid	27,282,440
Stop loss fees	5,105,391
Administrative fees	2,287,386
Brokerage service fees	1,118,721
Legal fees	88,128
Fiscal agent fees	63,172
Miscellaneous Fees	<u>83,716</u>
Total Operating Cash Disbursements	<u>36,028,954</u>
Excess of operating cash receipts over/(under) operating disbursements	<u>4,325,137</u>
NON-OPERATING CASH RECEIPTS	
Investment Receipts	3,227
Class Action Lawsuit	<u>49,667</u>
Total Non-Operating Receipts	<u>52,894</u>
Change in cash balance	4,378,031
CASH FUND BALANCE AT BEGINNING OF YEAR	<u>8,161,845</u>
CASH FUND BALANCE AT END OF YEAR	<u><u>\$ 12,539,876</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, 2014

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. The Ohio School Benefits Cooperative contracts with the East Central Ohio ESC for Board Chair services. As of June 30, 2014, there were 34 participating members of the Cooperative.

The Cooperative's management believes this financial statement presents all activities for which the Cooperative 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. The Cooperative had no investments at June 30, 2014.

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, 2014

NOTE 3 - DEPOSITS

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

	<u>2014</u>
Demand Deposits	\$ 12,539,876

Deposits

At June 30, 2014, the carrying amount of the Cooperative's deposits was \$12,539,876, and the bank balance was \$12,540,517. The bank balance is 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 a 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, 2014 follows:

	<u>June 30, 2014</u>
Cash and Investments	\$ 12,539,876
Actuarial Loss Reserve	3,605,616



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*

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

To the Members of 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*, the financial statement of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated August 28, 2014, wherein we noted the Ohio School Benefits Cooperative followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Ohio School Benefits Cooperative'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 Ohio School Benefits Cooperative'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 Ohio School Benefits Cooperative's financial statements. 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
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, 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 Ohio School Benefits Cooperative's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Ohio School Benefits Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Julian & Grube, Inc.
August 28, 2014



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
OCTOBER 16, 2014