

Ohio School Benefits Cooperative
Muskingum County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

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 Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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

December 1, 2016

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**Ohio School Benefit Cooperative
Muskingum County, Ohio**

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September 27, 2016

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio School Benefits Cooperative, Muskingum County, Ohio (the Cooperative), as of and for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements 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 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 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the Cooperative prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements 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 presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Cooperative as of and for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the 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 Cooperative's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

Ohio School Benefits Cooperative

Muskingum County, Ohio

Statement of Cash Receipts, Disbursements, and Change in Cash Fund Balance
For the Fiscal Year Ended June 30, 2016

Operating cash receipts:	
Member Contributions	\$ 53,173,965
Stop-Loss Premiums	2,192,376
Member Dues	<u>1,500</u>
Total operating cash receipts	<u>55,367,841</u>
Operating cash disbursements:	
Claims Paid	39,885,111
Stop-Loss Fees	6,921,959
Administrative Fees	3,102,155
Brokerage Service Fees	1,397,175
Affordable Care Act Fees	740,142
Consulting Services	199,806
Invoice Processing Fees	141,324
Legal Fees	109,161
Fiscal Agent Fees	85,718
Miscellaneous Fees	<u>66,073</u>
Total operating cash disbursements	<u>52,648,624</u>
Excess of operating cash receipts over operating disbursements	<u>2,719,217</u>
Non-operating cash receipts:	
Investment Receipts	<u>91,720</u>
Change in cash balance	2,810,937
Cash fund balance at beginning of year	<u>15,307,514</u>
Cash fund balance at end of year	<u><u>\$ 18,118,451</u></u>

See accompanying notes to the basic financial statements.

Ohio School Benefits Cooperative
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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 Statement No. 10 and amended by GASB Statement No. 30 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 Body of the Cooperative is the Board of Directors composed of the Superintendents and Treasurers of the member districts. As of June 30, 2016, there were 41 participating member school districts of the Cooperative providing services to 7,400 participants, respectively. The Board of Directors and the treasurer of the fiscal agent (a non-voting, ex-officio member of the Board) shall function as the advisory body to the Cooperative. It shall consist of nine representatives.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Basis of Accounting

The Cooperative’s financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Cooperative’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets, deferred outflows, and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities, deferred inflows, and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Cooperative uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

Ohio School Benefits Cooperative
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

Operating receipts are those receipts that are generated directly from the primary activity of the Cooperative. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Cooperative. All receipts and disbursements not meeting this definition are reported as non-operating.

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 receipts or disbursements, respectively. Money market funds and federal agency securities are valued at cost. During fiscal year 2016, the Cooperative's investments consisted of Certificates of Deposit and money markets.

C. Budgetary Process

The Cooperative is not required to adopt a budget; however, member school districts are required by Ohio law to adopt an annual budget.

D. Member 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Cooperative is permitted to invest in any security specifically authorized by ORC 135.14.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Cooperative's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are to be deposited or invested in the following securities:

1. United States treasury bills, notes, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association,

Ohio School Benefits Cooperative
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, and government national mortgage association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

3. Interim deposits in the eligible institutions applying for interim moneys as provided in section 135.08 of the Revised Code. The award of interim deposits shall be made in accordance with section 135.09 of the Revised Code and the treasurer or the governing board shall determine the periods for which such interim deposits are to be made and shall award such interim deposits for such periods, provided that any eligible institution receiving an interim deposit award may, upon notification that the award has been made, decline to accept the interim deposit in which event the award shall be made as though the institution had not applied for such interim deposit.
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
6. The Ohio subdivision's fund as provided in section 135.45 of the Revised Code;
7. Up to forty per cent of interim moneys available for investment in Certain banker's acceptance and commercial paper notes

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Cooperative cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Deposits At fiscal year-end, the carrying amount of the Cooperative's deposits was \$18,118,451 and the bank balance was \$18,118,451. Of the bank balance:

1. \$8,427,000 of the bank balance was covered by depository insurance; and
2. \$9,691,451 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Cooperative to a successful claim by the FDIC.

NOTE 4 – RISK MANAGEMENT

A. Medical and Dental Benefits

The Cooperative contracts with a third party administrator, Medical Mutual, to process and pay health claims and dental claims incurred by its members. Members pay monthly premiums to the Cooperative, based on 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.

Ohio School Benefits Cooperative
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

B. Stop-Loss Coverage

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.

C. Actuarial Valuation

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 actuarial liability 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 follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash and Investments	\$ 18,118,451	\$ 15,307,514
Actuarial liabilities	5,071,040	3,259,382

NOTE 5 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Cooperative to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.35, the Cooperative may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Cooperative does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

September 27, 2016

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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 statements of Ohio School Benefits Cooperative, Muskingum County, Ohio (the Cooperative), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2016, wherein we issued an adverse opinion on the Cooperative's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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 statements, but not to the extent necessary to opine on the effectiveness of the 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 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.

Compliance and Other Matters

As part of reasonably assuring whether the Cooperative's financial statements are 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Cooperative's Response to the Finding

The Cooperative's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

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

Hea & Associates, Inc.

Cambridge, Ohio

Ohio School Benefits Cooperative
Muskingum County, Ohio
Schedule of Findings
June 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2016-001 – Material Noncompliance

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38. This law was revised in 2015 to include insurance plans starting with fiscal year 2016.

Condition: The Cooperative did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2016, the Cooperative prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities. The Cooperative was required to prepare its annual report in accordance with generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows, liabilities, deferred inflows, fund equities, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Cooperative may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the Cooperative review the revised standards. We also recommend the Cooperative prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The Cooperative does not intend to develop a Corrective Action Plan or to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

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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
DECEMBER 13, 2016**