

**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY, OHIO
AUDITED FINANCIAL STATEMENTS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

CHRISTINE WAGNER, TREASURER



Dave Yost • Auditor of State

January 13, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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DAVE YOST
Auditor of State

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Ohio Schools Benefits Cooperative, Muskingum County, prepared by Julian & Grube, Inc., for the audit period July 1, 2008 through June 30, 2010. 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 Schools Benefits Cooperative is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 30, 2010

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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

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

We have audited the accompanying financial statements of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Ohio School Benefits Cooperative's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 these financial statements 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 statements present, 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 statements do 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 statements referred to above for the fiscal years ended June 30, 2010 and 2009, do 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, 2010, or its changes in financial position or cash flows for the years then ended.

Independent Auditor's Report
Ohio School Benefits Cooperative
Page Two

Also, in our opinion, the financial statement referred to above present fairly, in all material respects, the cash fund balance of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal years ended June 30, 2010 and 2009, and its combined cash receipts and disbursements for the fiscal years then ended on the accounting basis Note 2 describes.

The Ohio School Benefits Cooperative has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

The Ohio School Benefits Cooperative has not presented the required supplementary information on receipt and claims development that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, on our consideration of the Ohio School Benefits Cooperative's internal control over financial reporting and on 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.
November 23, 2010

OHIO SCHOOL BENEFITS COOPERATIVE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

OPERATING CASH RECEIPTS	
Member Contributions	<u>\$ 13,292,303</u>
Total Operating Cash Receipts	<u>13,292,303</u>
OPERATING CASH DISBURSEMENTS	
Claims paid	8,166,977
Stop loss fees	2,919,564
Administrative fees	891,172
Brokerage service fees	711,867
Legal fees	49,288
Fiscal agent fees	30,763
Miscellaneous Fees	<u>13,745</u>
Total Operating Cash Disbursements	<u>12,783,376</u>
Excess of operating cash receipts over/(under) operating disbursements	<u>508,927</u>
NON-OPERATING CASH RECEIPTS	
Investment Receipts	<u>6,402</u>
Total Non-Operating Receipts	<u>6,402</u>
Change in cash balance	515,329
CASH BALANCE AT BEGINNING OF YEAR	<u>2,465,847</u>
CASH BALANCE AT END OF YEAR	<u><u>\$ 2,981,176</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

OHIO SCHOOL BENEFITS COOPERATIVE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

OPERATING CASH RECEIPTS	
Member Contributions	<u>\$ 11,766,959</u>
Total Operating Cash Receipts	<u>11,766,959</u>
OPERATING CASH DISBURSEMENTS	
Claims paid	7,314,616
Stop loss fees	2,300,286
Administrative fees	812,110
Brokerage service fees	642,167
Legal fees	22,811
Fiscal agent fees	27,813
Miscellaneous Fees	<u>18,700</u>
Total Operating Cash Disbursements	<u>11,138,503</u>
Excess of operating cash receipts over/(under) operating disbursements	<u>628,456</u>
NON-OPERATING CASH RECEIPTS/(DISBURSEMENTS)	
Investment Receipts	10,864
Debt Service:	
Principal	(50,000)
Interest	<u>(7,917)</u>
Total Non-Operating Cash Receipts/(Disbursements)	<u>(47,053)</u>
Change in cash balance	581,403
CASH BALANCE AT BEGINNING OF YEAR	<u>1,884,444</u>
CASH BALANCE AT END OF YEAR	<u><u>\$ 2,465,847</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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, 2010, there were 14 participating members of the Cooperative and as of June 30, 2009, there were 15 participating members.

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 generally accepted accounting principles. 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 STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Demand Deposits	\$ 1,429,106	\$ 140,032
Certificates of Deposit	251,033	400,000
Money Market	<u>1,301,037</u>	<u>1,925,815</u>
 Total Deposits and Investments	 <u>\$ 2,981,176</u>	 <u>\$ 2,465,847</u>

A. Deposits

At June 30, 2010, the carrying amount of the Cooperative's deposits was \$2,981,176 and the bank balance was \$2,988,905. At June 30, 2009, the carrying amount of the Cooperative's deposits was \$2,465,847 and the bank balance was \$2,465,868. 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

Investments in mutual funds are not evidenced by securities that exist in physical or book entry form.

There are no statutory requirements governing the investment of Cooperative funds.

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, 2010 and 2009 follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and Investments	\$ 2,981,176	\$ 2,465,847
Actuarial Loss Reserve	1,028,000	962,000

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 5 - DEBT OBLIGATIONS

On February 13, 2006, the Cooperative received a start-up loan from Medical Mutual in the amount of \$50,000. The loan accrues 5% interest annually until paid in full. The Cooperative may repay any or all principal amounts, at any time or from time to time, at its discretion, without penalty, but all such amounts shall be repaid no later than December 31, 2010.

Transactions for the fiscal year ended June 30, 2009 are summarized as follows:

<u>Description</u>	<u>Balance 6/30/2008</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/2009</u>
Start up Loan	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ -</u>



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *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 statements of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of and for the fiscal years ended June 30, 2010 and 2009, and have issued our report thereon dated November 23, 2010, 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 statements, 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 statements 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 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, 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.
November 23, 2010



Mary Taylor, CPA
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
JANUARY 13, 2011**