

PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM

PICKAWAY COUNTY

REGULAR AUDIT

JULY 1, 2019 – JUNE 30, 2020



OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Pickaway County Public Employee Benefits Program
385 Viking Way
Ashville, Ohio 43103

We have reviewed the *Independent Auditor's Report* of the Pickaway County Public Employee Benefits Program, Pickaway County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2019 through June 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 2, 2020

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**PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Pickaway County Public Employee Benefits Program
Pickaway County
385 Viking Way
Ashville, Ohio 43103

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pickaway County Public Employee Benefits Program, Pickaway County, Ohio (the Program), as of and for the fiscal year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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 Program's internal control. Accordingly, we express no such 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pickaway County Public Employee Benefits Program, Pickaway County as of June 30, 2020, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 7 to financial statements, during fiscal year 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Program. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and six-year loss development information, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, on our consideration of the 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 Program's internal control over financial reporting and compliance.

Wilson, Shuman & Snow, Inc.

October 30, 2020
Newark, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

The management's discussion and analysis of the Pickaway County Public Employee Benefits Program's (the "Program") financial performance provides an overall review of the Program's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Program's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Program's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2020 are as follows:

- In total, net position was \$3,367,770 at June 30, 2020. This represents an increase of \$351,993, or 11.67% from June 30, 2019's prior fiscal year's net position.
- The Program had operating revenues of \$12,875,203 and operating expenses of \$12,641,173 for fiscal year 2020. The Program had \$117,963 in investment income. Operating income for the fiscal year was \$234,030.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Program's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Program, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Program.

Reporting the Program Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2020?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Program's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Program as a whole, the *financial position* of the Program has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Program's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the Program finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-17 of this report.

Required Supplementary Information

Six years of loss development information can be found on pages 21-23 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

Net Position and Changes in Net Position

The table below provides a summary of the Program's net position for fiscal years 2020 and 2019.

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,193,408	\$ 3,700,855
Investments	2,250,035	2,163,245
Receivables (net of allowance for uncollectibles):		
Accounts	50,316	-
Accrued interest	5,441	6,409
Total assets	5,499,200	5,870,509
<u>Liabilities:</u>		
Accounts payable	-	3,645
Claims payable	855,000	984,400
Due to member districts	1,272,643	1,866,687
Intergovernmental payable	3,787	-
Total liabilities	2,131,430	2,854,732
<u>Net Position:</u>		
Unrestricted	\$ 3,367,770	\$ 3,015,777

The assets of the Program are comprised mainly of cash and cash equivalents and investments. The Program established premiums at a level to build reserves should claims payments fluctuate in a given year. The Program will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

The liability for claims payable is calculated by the Program's independent actuary and estimates the claims incurred and due at June 30, 2020. This amount is reflected net of stop-loss reimbursements due to the Program at June 30, 2020. Intergovernmental payable has been reported for miscellaneous fees and amounts due to member districts relate to refunds due to an analysis of reserves for the Program.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2020 and 2019.

Change in Net Position

	<u>2020</u>	<u>2019</u>
<u>Operating revenues:</u>		
Member contributions	\$ 12,428,477	\$ 12,882,454
Rebates	<u>446,726</u>	<u>361,082</u>
Total operating revenues	<u>12,875,203</u>	<u>13,243,536</u>
<u>Operating expenses:</u>		
Claims	10,338,745	11,660,334
Administrative fees	1,964,759	1,712,903
Brokerage service fees	57,508	55,770
Miscellaneous fees	<u>280,161</u>	<u>76,287</u>
Total operating expenses	<u>12,641,173</u>	<u>13,505,294</u>
Operating income (loss)	<u>234,030</u>	<u>(261,758)</u>
<u>Nonoperating revenues:</u>		
Interest	<u>117,963</u>	<u>106,165</u>
Total nonoperating revenues	<u>117,963</u>	<u>106,165</u>
Change in net position	351,993	(155,593)
Net position at beginning of fiscal year	<u>3,015,777</u>	<u>3,171,370</u>
Net position at end of fiscal year	<u>\$ 3,367,770</u>	<u>\$ 3,015,777</u>

Member contributions revenue and rebates exceeded operating expenses in fiscal year 2020. Sufficient participant contributions are required to ensure that the Program meets claims expenses. The Program invested in STAR Ohio, U.S. Government money markets, federal agency securities, U.S. Treasury bills, commercial paper and negotiable CDs during fiscal year 2020. The fair value of investments fluctuates from year-to-year. The Program intends to hold all investment to maturity thus eliminating the risk due to fluctuations their fair value while capturing the interest offered by the investments.

Claims expense represents 81.79% and 86.34% of all expenses for fiscal year 2020 and 2019, respectively. The Program aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 80.30% and 88.05% of total fiscal year 2020 and 2019 operating revenues, respectively. The Program uses United Healthcare as the third-party administrator for the medical and pharmacy plan and Delta Dental as the third-party administrator for the dental plan.

Current Financial Related Activities

The Program is committed to providing its member school districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. The Program will continue to look at potential members who meet the established criteria. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Program is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments. The Program had no new members in fiscal year 2020.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(UNAUDITED)**

The Program requires its member school districts to participate in the medical, pharmacy and dental insurance program. The Program Board of Directors and its administrative agent, CBIZ Benefits & Insurances, Inc., continually discuss program enhancements to the existing product line. Establishing premiums that satisfy all claims, administration fees, and other expenses of the Program, in addition to enhancing the net position is important for the short-term and long-term interests of the Program.

The most significant challenge facing the Program's Board of Directors is the current trend of skyrocketing health care costs, primarily medical and pharmacy. These two programs were the impetus that brought the member school districts together in an attempt to benefit from the economies of scale, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Board of Directors is faced with the unenviable task of attempting to balance a quality benefits offering within the financial constraints facing Ohio's public school districts. This is much the same as the dilemma facing American businesses today, and is complicated by the fact that each member school district in the Program must collectively bargain benefit levels with the respective employee unions. The challenge is set before the Program and its Board of Directors, and the future looks better from the collective, as opposed to individual, view of the four member school districts.

Contacting the Program's Financial Management

This financial report is designed to provide our member school districts, potential member school districts and investors and creditors with a general overview of the Program's finances and to show the Program's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Stacy Overly, Treasurer, Teays Valley Local School District, 385 Circleville Avenue, Ashville, OH 43103-9417.

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

STATEMENT OF NET POSITION
JUNE 30, 2020

Assets:	
Cash and cash equivalents	\$ 3,193,408
Investments	2,250,035
Receivables:	
Accounts	50,316
Accrued interest	<u>5,441</u>
Total assets	<u>5,499,200</u>
 Liabilities:	
Claims payable	855,000
Due to member districts	1,272,643
Intergovernmental payable	<u>3,787</u>
Total current liabilities	<u>2,131,430</u>
 Net position:	
Unrestricted	<u>3,367,770</u>
Total net position	<u><u>\$ 3,367,770</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Operating revenues:	
Member contributions	\$ 12,428,477
Rebates	<u>446,726</u>
Total operating revenues	<u>12,875,203</u>
Operating expenses:	
Claims.	10,338,745
Administrative fees.	1,964,759
Brokerage service fees	57,508
Miscellaneous fees	<u>280,161</u>
Total operating expenses	<u>12,641,173</u>
Operating income	<u>234,030</u>
Nonoperating revenues:	
Investment income	<u>117,963</u>
Total nonoperating revenues	<u>117,963</u>
Change in net position.	351,993
Net position at beginning of fiscal year	<u>3,015,777</u>
Net position at end of fiscal year.	<u><u>\$ 3,367,770</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:	
Cash received from member contributions	\$ 11,834,433
Cash received from rebates.	396,410
Cash payments for claims.	(10,468,145)
Cash payments for administrative fees	(1,964,759)
Cash payments for brokerage service fees	(57,508)
Cash payments for miscellaneous fees	<u>(280,019)</u>
Net cash used in operating activities.	<u>(539,588)</u>
Cash flows from investing activities:	
Investments purchased	818,134
Investments sold	(855,936)
Interest income	<u>69,943</u>
Net cash provided by investing activities.	<u>32,141</u>
Net change in cash	(507,447)
Cash and cash equivalents at beginning of fiscal year.	<u>3,700,855</u>
Cash and cash equivalents at end of fiscal year	<u><u>\$ 3,193,408</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 234,030
Changes in assets and liabilities:	
(Increase) in accounts receivable	(50,316)
(Decrease) in accounts payable	(3,645)
(Decrease) in due to member districts	(594,044)
Increase in intergovernmental payable	3,787
(Decrease) in claims payable	<u>(129,400)</u>
Net cash used in operating activities.	<u><u>\$ (539,588)</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Program's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Program are not misleading. On this basis, no governmental organizations other than the Program itself are included in the financial reporting entity.

B. Fund Accounting

The Program maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Program 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 or 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Program utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Program's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Program's operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The Program distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage and stop loss insurance premiums. Operating expenses for the Program include the payment of claims, premiums, administrative fees, brokerage service fees and miscellaneous fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash Equivalents and Investments

Investments are reported as assets. 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. During fiscal year 2020, investments were limited to STAR Ohio (the State Treasury Asset Reserve of Ohio), U.S. Government money markets, Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, U.S. Treasury bills, commercial paper and negotiable certificates of deposit (CDs). Investments are reported at fair value, which is based on quoted market prices.

During fiscal year 2020, the Program invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Program measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For purposes of reporting on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Program are considered to be “cash equivalents”. Investments with an initial maturity of more than three months are considered to be “investments”.

An analysis of the Program’s investments at fiscal year-end is provided in Note 3.

E. 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.

F. Budgetary Process

Each member school district of the Program is required by Ohio law to adopt an annual budget. The Program itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

G. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Program had no restricted net position at fiscal year-end.

H. Fair Value Measurements

The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

I. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

The Program’s investment policy dictates that cash and investments be maintained in compliance with all applicable laws governing the operation of the Program, including the Ohio Revised Code Section 135.03.

The Program is permitted to deposit or invest in the following:

1. United States Treasury Notes, Bills, 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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

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, 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. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Protection of the deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Program, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The amounts held in the depository accounts and the investment accounts at fiscal year year-end are described below.

A. Deposits Held in Financial Institutions

At June 30, 2020, the carrying amount and the bank balance of the Program's deposits held in financial institutions was \$963,497 and \$978,371, respectively. Of the bank balance, \$500,000 was covered by the FDIC and \$478,371 was either covered by the Ohio Pooled Collateral System (OPCS) or was potentially exposed to custodial credit risk below because those deposits were uninsured and could be uncollateralized.

PICKAWAY COUNTY PUBLIC EMPLOYEE BENEFITS PROGRAM
PICKAWAY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Program will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Program has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Program and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2020, the Program's financial institutions were approved for a reduced collateral rate of 50 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Program to a successful claim by the FDIC.

B. Investments

As of June 30, 2020, the Program had the following investments and maturities:

<u>Measurement/Investment Type:</u>	<u>Measurement 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 24 months</u>	<u>Greater than 24 months</u>
<i>Amortized cost:</i>						
STAR Ohio	\$ 2,212,467	\$ 2,212,467	\$ -	\$ -	\$ -	\$ -
<i>Fair value:</i>						
U.S. Government money market	17,444	17,444	-	-	-	-
FHLB	130,019	-	-	-	130,019	-
FNMA	99,895	-	-	-	-	99,895
U.S. Treasury bills	114,966	114,966	-	-	-	-
Commercial paper	514,223	209,952	304,271	-	-	-
Negotiable CDs	1,390,932	248,750	192,638	109,450	459,257	380,837
Total	<u>\$ 4,479,946</u>	<u>\$ 2,803,579</u>	<u>\$ 496,909</u>	<u>\$ 109,450</u>	<u>\$ 589,276</u>	<u>\$ 480,732</u>

The weighted average of maturity of investments is 0.74 years.

The Program's investment in the U.S. Government money market is valued using quoted market prices in active markets (Level 1 inputs). The Program's investments in federal agency securities (FHLB, FNMA), U.S. Treasury bills, commercial paper and negotiable CDs are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The Program’s investments in 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 rating service. The Program’s investments in FHLB and FNMA securities and U.S. Treasury bills were rated AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. The Program’s investments in commercial paper were rated A-1 and P-1 by Standard & Poor’s and Moody’s Investor Services, respectively. The Program’s investments in negotiable CDs and the U.S. Government money market were not rated. The negotiable CDs are covered by FDIC. The Program has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

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 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, 2020:

<u>Measurement/Investment Type:</u>	<u>Measurement</u>	
	<u>Value</u>	<u>% of Total</u>
<i>Amortized cost:</i>		
STAR Ohio	\$ 2,212,467	49.38
<i>Fair Value:</i>		
U.S. Government money market	17,444	0.39
FHLB	130,019	2.90
FNMA	99,895	2.23
U.S. Treasury bills	114,966	2.57
Commerical paper	514,223	11.48
Negotiable CDs	<u>1,390,932</u>	<u>31.05</u>
Total	<u>\$ 4,479,946</u>	<u>100.00</u>

NOTE 4 - RISK MANAGEMENT

The Program contracts with United Healthcare and Delta Dental as third-party administrators to process and pay claims incurred by its members for the medical and pharmacy program and for the dental program, respectively. 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 re-insurers, although it does not discharge their primary liability.

It is not necessary for each member school district to hold a reserve for Incurred But Not Reported (IBNR) claims. The IBNR information is presented by the Program as required by GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, and is not available on a District-by-District basis.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 4 - RISK MANAGEMENT - (Continued)

The claims liability of \$855,000 reported at June 30, 2020, is based on an actuarial estimate provided by the third party administrator and the requirements of GASB Statement No. 10 as amended by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Claims payable at beginning of fiscal year	\$ 984,400	\$ 959,000
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	10,845,502	12,031,659
Change in claims expenses for insured events of the prior years	<u>(506,757)</u>	<u>(371,325)</u>
Total claims expenses	<u>10,338,745</u>	<u>11,660,334</u>
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	9,518,854	10,575,611
Claims expenses paid attributable to insured events of prior years	<u>949,291</u>	<u>1,059,323</u>
Total claims payments	<u>10,468,145</u>	<u>11,634,934</u>
Claims payable at end of fiscal year	<u>\$ 855,000</u>	<u>\$ 984,400</u>

NOTE 5 - LITIGATION

The Program is not party to legal proceedings which, in the opinion of Program management, would have a material effect, if any, on the financial condition of the Program.

NOTE 6 - RECEIVABLES

All receivables are shown net of an allowance for uncollectible amounts, as applicable, and are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At June 30, 2020, the Program reported a receivables of \$50,316 and \$5,441 for rebates and accrued interest receivable for accrued interest on investments, respectively. These receivables are expected to be collected within one year.

NOTE 7 - CONTINGENCIES

COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Program. The Program's investment portfolio are subject to increased market volatility, which could result in a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Program's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION

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

SIX-YEAR LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Program's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Program as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Program's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called accident year).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table show data for successive accident years. Loss development information prior to fiscal year 2015 is not available.

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

SIX-YEAR LOSS DEVELOPMENT INFORMATION ⁽¹⁾ (CONTINUED)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
1. Premiums and investment income ⁽²⁾	\$ 12,374,345	\$ 12,087,331	\$ 12,232,025	\$ 13,105,778
2. Unallocated expenses ⁽²⁾	1,556,244	1,631,235	1,729,362	1,819,621
3. Estimated losses incurred and expense, end of year	10,939,326	10,714,720	11,742,558	12,193,307
4. Paid, cumulative as of:				
End of accident year	9,412,406	9,360,772	10,353,310	10,762,659
One year later	10,086,426	10,034,740	11,042,539	11,821,982
Two years later	10,086,426	10,034,740	11,042,539	11,821,982
Three years later	10,086,426	10,034,740	11,042,539	-
Four years later	10,086,426	10,034,740	-	-
Five years later	10,086,426	-	-	-
5. Re-estimated incurred losses and expense:				
End of accident year	10,939,326	10,714,720	11,742,558	12,193,307
One year later	10,086,426	10,034,740	11,042,539	11,821,982
Two years later	10,086,426	10,034,740	11,042,539	11,821,982
Three years later	10,086,426	10,034,740	11,042,539	-
Four years later	10,086,426	10,034,740	-	-
Five years later	10,086,426	-	-	-
6. Change in estimated incurred losses and expenses from end of accident year	(852,900)	(679,980)	(700,019)	(371,325)

Notes:

⁽¹⁾ Information prior to fiscal year 2015 is not available. This schedule is intended to show information for ten years. Additional information will be displayed as it becomes available.

⁽²⁾ Information for 2015 and 2016 presented on the cash-basis of accounting.

	<u>2019</u>	<u>2020</u>
\$	12,988,619	\$ 12,546,440
	1,844,960	2,302,428
	12,031,659	10,842,502
	10,575,611	9,518,854
	11,524,902	-
	-	-
	-	-
	-	-
	-	-
	12,031,659	10,845,502
	11,524,902	-
	-	-
	-	-
	-	-
	-	-
	(506,757)	-

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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
Pickaway County
385 Viking Way
Ashville, Ohio 43103

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*, the financial statements of the Pickaway County Public Employee Benefits Program, Pickaway County, (the Program) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements and have issued our report thereon dated October 30, 2020, wherein we noted the Program considered the financial impact of COVID-19 as disclosed in Note 7.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Program's internal control over financial reporting (internal control) as a basis for designing 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 Program'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 Program'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.

Pickaway County Public Employee Benefits Program
Pickaway County
Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliancy and Other Matters Required
By *Government Auditing Standards*

Compliance and Other Matters

As part of reasonably assuring whether the Program'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 financial statements. 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 Program's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Wilson, Shannon E. Snow, Inc.

October 30, 2020
Newark, Ohio

OHIO AUDITOR OF STATE KEITH FABER



PICKAWAY COUNTY PUBLIC EMPLOYEES BENEFITS PROGRAM

PICKAWAY COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 12/15/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov