

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

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Board of Directors
Ohio School Benefits Cooperative
205 N. 7th St.
Zanesville, OH 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, 2020 through June 30, 2021. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 14, 2022

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**Ohio School Benefits Cooperative
Muskingum County, Ohio**

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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 the Ohio School Benefits Cooperative, Muskingum County, Ohio (the Cooperative), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio School Benefits Cooperative, Muskingum County, Ohio, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Loss Development Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2021 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting and 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.

Rea & Associates, Inc.
Cambridge, Ohio
December 30, 2021

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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

The management's discussion and analysis of the Ohio School Benefits Cooperative (the "Cooperative") financial performance provides an overall review of the Cooperative's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the Cooperative'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 Cooperative's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2021 are as follows:

- The assets of the Cooperative exceeded its liabilities at the close of the most recent fiscal year by \$18.8 million, a decrease of \$4.5 million in comparison with the prior fiscal year-end.
- The Cooperative's operating expenses exceeded operating revenues by \$4.6 million during the most recent fiscal year.

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 Cooperative'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 Cooperative, 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 Cooperative.

Reporting the Cooperative 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 2021?" 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 Cooperative's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Cooperative as a whole, the *financial position* of the Cooperative has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Cooperative'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.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

The statement of cash flows provides information about how the Cooperative 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 start on page 11 of this report.

Required Supplementary Information

Loss development information can be found on pages 20-21 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Cooperative's net position at June 30, 2021 and June 30, 2020.

	Net Position	
	2021	2020
<u>Assets</u>		
Cash and cash equivalents	\$ 23,862,083	\$ 24,467,954
Investments	6,375,121	7,457,493
Accounts Receivable	429,156	-
Accrued Interest Receivable	10,255	12,529
Prepayments	18,272	20,267
Total Assets	30,694,887	31,958,243
<u>Liabilities:</u>		
Accounts payable	54,326	64,460
Unearned revenue	2,210,466	1,634,162
Claims payable	9,583,468	6,958,111
Total Liabilities	11,848,260	8,656,733
<u>Net Position:</u>		
Unrestricted	18,846,627	23,301,510

Cash and cash equivalents decreased significantly in comparison with the prior fiscal year-end. This decrease is primarily the result of operating loss of \$4.6 million during the fiscal year.

Accounts receivable increased significantly in comparison with the prior fiscal year-end. A few members were not current with their premium payments as of June 30, 2021, resulting in this increase.

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

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Unearned revenue also increased significantly in comparison with the prior fiscal year-end. This increase is the result of more members paying their premium July premium in June, compared with the prior year.

Claims payable also increased significantly. This increase is the product of the results of the Cooperative's annual actuarial valuation.

The table below shows the changes in net position for fiscal year 2021 and 2020.

Change in Net Position

	2021	2020
<u>Operating Revenues:</u>		
Member Premiums	\$ 80,351,448	\$ 78,797,282
Stop-Loss Premiums	2,230,389	2,326,575
Total operating revenues	82,581,837	81,123,857
<u>Operating Expenses:</u>		
Claims	75,673,427	67,435,907
Stop-Loss Premiums	5,836,363	5,892,709
Administrative Services	3,648,195	3,587,635
Brokerage Services	1,397,693	1,499,961
Affordable Care Act Fees	50,204	51,979
Consulting Services	212,908	206,580
Invoice Processing Services	161,143	171,543
Legal Services	81,158	82,217
Fiscal Agent Services	84,135	90,238
Miscellaneous	40,225	39,678
Total operating expenses	87,185,451	79,058,447
Operating income (loss)	(4,603,614)	2,065,410
<u>Non-operating revenues:</u>		
Interest revenue	148,731	686,815
Total non-operating revenues	148,731	686,815
Change in Net Position	(4,454,883)	2,752,225
Net position, July 1	23,301,510	20,549,285
Net position, June 30	\$ 18,846,627	\$ 23,301,510

Member premium revenues increased significantly in comparison with the prior fiscal year. This increase is primarily the result of the Cooperative receiving an increase in premium payments from members.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Interest revenue decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of a significant decline in interest rates for the Cooperative's investments in comparison with the prior fiscal year as a result of the COVID-19 pandemic.

Total operating expenses increased significantly in comparison with the prior fiscal year. This increase is primarily the result of a significant increase in claims.

Current Issues

Management believes that the Ohio School Benefits Cooperative is financially stable. As indicated in the preceding financial information, the Cooperative is dependent on premiums received from member districts. Premium revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program benefit levels will be dependent on increased premiums to meet inflation. Careful financial planning will permit the Cooperative to provide quality benefits for the employees of the member districts.

In addition, 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 may impact subsequent periods of the Cooperative. The potential impact on the Cooperative's future operating revenues and expenses cannot be estimated.

Contacting the Cooperative's Financial Management

This financial report is designed to provide our member districts, citizens and other interested parties with a general overview of the Cooperative's finances and to show the Cooperative's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Danielle Devoll, Treasurer, Ohio School Benefits Cooperative, 205 North 7th Street, Zanesville, Ohio 43701.

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

STATEMENT OF NET POSITION
AS OF JUNE 30, 2021

Assets:

Current Assets

Cash and Cash Equivalents	\$ 23,862,083
Investments	6,375,121
Accounts Receivable	429,156
Accrued Interest Receivable	10,255
Prepayments	18,272
Total Current Assets	<u>30,694,887</u>

Total Assets

30,694,887

Liabilities:

Current Liabilities

Accounts Payable	54,326
Unearned Revenue	2,210,466
Claims Payable	9,583,468
Total Current Liabilities	<u>11,848,260</u>

Total Liabilities

11,848,260

Net Position:

Unrestricted	18,846,627
Total Net Position	<u>\$ 18,846,627</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Operating Revenues:	
Member Premiums	\$ 80,351,448
Stop-Loss Premiums	2,230,389
Total Operating Revenues	<u>82,581,837</u>
Operating Expenses:	
Claims	75,673,427
Stop-Loss Premiums	5,836,363
Administrative Services	3,648,195
Brokerage Services	1,397,693
Affordable Care Act Fees	50,204
Consulting Services	212,908
Invoice Processing Services	161,143
Legal Services	81,158
Fiscal Agent Services	84,135
Miscellaneous	40,225
Total Operating Expenses	<u>87,185,451</u>
Operating Loss	<u>(4,603,614)</u>
Non-Operating Revenue:	
Interest Revenue	148,731
Total Non-Operating Revenue	<u>148,731</u>
Change in Net Position	(4,454,883)
Net Position, Beginning of Fiscal Year	23,301,510
Net Position, End of Fiscal Year	<u><u>\$ 18,846,627</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Cash Flows from Operating Activities:	
Cash Received from Insurance Premiums	\$ 80,492,413
Cash Received from Stop Loss Premiums	2,236,572
Cash Payments for Claims	(73,048,070)
Cash Payments for Stop Loss Premiums	(5,836,363)
Cash Payments for Administrative Services	(3,648,195)
Cash Payments for Other Professional Services	(1,991,307)
Cash Payment for Other	(44,298)
Net Cash Used for Operating Activities	<u>(1,839,248)</u>
Cash Flows from Investing Activities:	
Interest on Cash and Cash Equivalents	247,380
Cash Received from Investment Maturities	1,982,000
Cash Payments for Investment Purchases	(996,003)
Net Cash Provided by Investing Activities	<u>1,233,377</u>
Net Decrease in Cash and Cash Equivalents	(605,871)
Cash and Cash Equivalents at Beginning of Fiscal Year	<u>24,467,954</u>
Cash and Cash Equivalents at End of Fiscal Year	<u><u>\$ 23,862,083</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (4,603,614)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(429,156)
Prepaid Items	1,995
Accounts Payable	(10,134)
Unearned Revenue	576,304
Claims Payable	2,625,357
Net Cash Used for Operating Activities	<u><u>\$ (1,839,248)</u></u>

See accompanying notes to the basic financial statements.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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 utilizes the Muskingum Valley Education Service Center (the Fiscal Agent) as its fiscal agent.

The Cooperative is 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, 2021, there were 44 participating member school districts of the Cooperative providing services to 9,408 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 basic financial statements present all activities for which the Cooperative is financially accountable.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Cooperative consists of all funds, departments, boards, and agencies that are not legally separate from the Cooperative. For the Cooperative, this includes the general operations of the shared risk pool.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Cooperative's basic financial statement consists of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The Cooperative uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Statement of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Cooperative's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from the nonexchange transactions, in which the Cooperative receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Cooperative must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Cooperative on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Cash and Investments

The Cooperative's cash is pooled and invested by the Fiscal Agent, Muskingum Valley Educational Service Center. The Fiscal Agent acts as the custodian for the Cooperative's monies. Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased for the Cooperative are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investment

During the fiscal year, the Cooperative invested in negotiable certificates of deposit and money market accounts. Investments are reported at fair value, which is based on quoted market prices.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2021, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

F. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Cooperative or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The Cooperative applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At fiscal year-end, all of the Cooperative's net position is considered unrestricted.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

G. 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.

H. Operating Revenues and Expenses

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

I. Estimates

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

J. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria has been satisfied. The unearned revenue for the Cooperative represents fiscal year 2022 premiums received in fiscal year 2021.

NOTE 3 - DEPOSITS AND INVESTMENTS

Monies held by the Cooperative are classified into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the Cooperative treasury. Active monies must be maintained either as cash in the Cooperative treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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, including passbook accounts.

Protection of the Cooperative's 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.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Interim monies held by the Cooperative can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 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 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 division (1) or (2) 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 (STAR Ohio).
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.

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 Cooperative, 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.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Cooperative will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$5,340,581 of the Cooperative's bank balance of \$23,799,425 was exposed to custodial credit risk because it was uninsured and collateralized. The Cooperative's financial institution was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

The Cooperative has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the Cooperative and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

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 market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

At fiscal year-end, the Cooperative had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>		
		<u>1 year or less</u>	<u>1 to 3 years</u>	<u>Greater than 3 years</u>
Negotiable CD's	\$ 6,375,121	\$ 1,748,085	\$ 3,853,751	\$ 773,285
Money Market	62,658	62,658	-	-
Total	<u>\$ 6,437,779</u>	<u>\$ 1,810,743</u>	<u>\$ 3,853,751</u>	<u>\$ 773,285</u>

The Cooperative 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.

The Cooperative's investments in 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). The Cooperative's investments in money market accounts are valued using quoted prices in active markets for identical assets (Level 1 inputs).

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Consortium's investment policy limits investment portfolio maturities to five years or less.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Cooperative has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

NOTE 4 - RISK MANAGEMENT

A. Medical and Dental Benefits

The Cooperative contracts with a third-party administrator, Medical Mutual, to process and pay health and dental claims incurred by its members. Members pay monthly premiums to the Cooperative based on each member's individual rating. The Cooperative issues payments to the third-party administrator for accrual insurance claims processed, stop-loss premiums, and administrative charges.

B. Reinsurance

The Cooperative uses reinsurance agreements (stop-loss coverage) to reduce its exposure to large losses that may be incurred on medical claims. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Cooperative as direct insurer of the risks reinsured. The Cooperative does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claims liabilities as of June 30, 2021 for reinsurance was \$797,429.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

C. Unpaid Claims Liabilities

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”, 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 establish a reserve liability that includes a provision for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The method of assumptions utilized for measuring the actuarial liability are critical to the determination as to whether reserve funds are adequate. The following represents changes in the unpaid claims liability for the fiscal year (a comparative schedule will be presented in future years when prior year information is available):

<u>Fiscal Year Ending</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Claims liability beginning of year	\$ 6,958,111	\$ 7,034,907
Incurred claims and claim adjustment expenses:		
Provision for insured events - current fiscal year	76,793,015	67,214,107
Increase (decrease) in the provision of insured events - prior fiscal years	<u>(1,119,588)</u>	<u>221,800</u>
Total incurred claims and claims adjustment expenses	<u>75,673,427</u>	<u>67,435,907</u>
Payments:		
Claims and claim adjustment expenses - current fiscal year	(68,417,625)	(61,082,632)
Claims and claim adjustment expenses - prior fiscal years	<u>(4,630,445)</u>	<u>(6,430,071)</u>
Total payment	<u>(73,048,070)</u>	<u>(67,512,703)</u>
Claims liability end of year	<u>\$ 9,583,468</u>	<u>\$ 6,958,111</u>

NOTE 5 – CHANGE IN BASIS OF ACCOUNTING

For the fiscal year ended June 30, 2021, the Cooperative implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*, certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates* and GASB Statement No. 98, *The Annual Comprehensive Financial Report*.

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. The implementation of GASB Statement No. 84 did not have an effect on the financial statements of the Cooperative.

For fiscal year ended June 30, 2021, the Cooperative implemented GASB Statement No. 90. GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Cooperative.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

For fiscal year ended June 30, 2021, the Cooperative implemented GASB Statement No. 93. GASB Statement No. 93 addresses accounting and financial reporting effects that result from the replacement of interbank offered rates (IBORs) with other reference rates in order to preserve the reliability, relevance, consistency, and comparability of reported information. The implementation of certain provisions (all except for paragraphs 13 and 14, which are effective for fiscal years beginning after June 15, 2021), of GASB Statement No. 93 did not have an effect on the financial statements of the Cooperative.

For fiscal year ended June 30, 2021, the Cooperative implemented GASB Statement No. 98. GASB Statement No. 98 establishes the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of GASB Statement No. 98 did not have an effect on the financial statements of the Cooperative.

NOTE 6 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June of 2021 while the national state of emergency continues. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of the cooperative. The potential impact on the Cooperative's future operating revenues and expenses cannot be estimated.

REQUIRED SUPPLEMENTARY INFORMATION

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

LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Cooperative's earned revenue and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Cooperative as of the end of the fiscal year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned premiums and investment revenues.
- (2) This line shows each fiscal year's other operating costs of the Cooperative including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Cooperative's incurred claims (both paid and accrued) as originally reported at the end of the first fiscal year in which the event that triggered coverage under the contract occurred (called *accident year*).
- (4) This section shows the cumulative amount paid as of the end of successive years for each accident year.
- (5) This section shows how each accident year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost 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 incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

Loss development information is provided on the next page. Claims information prior to fiscal year 2019 was unavailable.

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

LOSS DEVELOPMENT INFORMATION
LAST THREE FISCAL YEARS

	<u>2021</u>	<u>2020</u>	<u>2019</u>
1. Earned premiums and investment revenues	82,730,568	81,810,672	77,882,874
2. Unallocated expenses	11,512,024	11,622,540	11,549,746
3. Estimated incurred claims and expenses, end of accident year	76,793,015	67,214,107	66,696,685
4. Paid, cumulative as of:			
End of accident year	68,417,625	61,082,632	61,896,512
One year later	-	67,434,254	68,326,583
Two years later	-	-	68,344,061
Three years later	-	-	-
Four years later	-	-	-
Five years later	-	-	-
Six years later	-	-	-
Seven years later	-	-	-
Eight years later	-	-	-
Nine years later	-	-	-
5. Re-estimated incurred claims and expenses:			
End of accident year	76,793,015	67,214,107	61,896,512
One year later	-	67,434,254	68,326,583
Two years later	-	-	68,344,061
Three years later	-	-	-
Four years later	-	-	-
Five years later	-	-	-
Six years later	-	-	-
Seven years later	-	-	-
Eight years later	-	-	-
Nine years later	-	-	-
6. Increase (decrease) in estimated incurred claims and expenses from end of accident year	-	220,147	1,647,376

Loss development information prior to fiscal year 2019 not available.

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio School Benefits Cooperative, Muskingum County, Ohio (the Cooperative), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated December 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Cambridge, Ohio
December 30, 2021

OHIO AUDITOR OF STATE KEITH FABER



OHIO SCHOOL BENEFITS COOPERATIVE

MUSKINGUM 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 2/24/2022

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