

Ohio School Benefits Cooperative
Muskingum County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

Board of Directors
Ohio School Benefits Cooperative
205 North 7th Street
Zanesville, Ohio 43701

We have reviewed the *Independent Auditor's Report* of the Ohio School Benefits Cooperative, Muskingum County, prepared by Rea & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. 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.



Keith Faber
Auditor of State
Columbus, Ohio

December 17, 2019

This page intentionally left blank.

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

Table of Contents

TITLE	PAGE
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Required Supplementary Information	
Loss Development Information	20
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	22
Summary Schedule of Prior Audit Findings	24

This page intentionally left blank.

December 4, 2019

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, 2019, 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, 2019, 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.

Emphasis of a Matter

As described in Note 5, the Cooperative restated the net position balance to prepare the financial statements in accordance with generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019, 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.

Cambridge, Ohio

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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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, 2019. 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 2019 are as follows:

- The assets of the Cooperative exceeded its liabilities at the close of the most recent fiscal year by \$20.5 million, an increase of \$4.1 million in comparison with the prior fiscal year-end.
- The Cooperative's operating revenues exceeded operating expenses by \$3.6 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 2019?" 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, 2019

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, 2019 and June 30, 2018.

	Net Position	
	2019	Restated 2018
<u>Assets</u>		
Cash and cash equivalents	\$ 20,915,002	\$ 16,748,973
Investments	7,931,150	7,758,416
Accounts Receivable	449,421	27,360
Accrued Interest Receivable	15,880	14,324
Prepayments	21,067	21,181
Total Assets	29,332,520	24,570,254
 <u>Liabilities:</u>		
Accounts payable	53,839	56,352
Unearned revenue	1,694,489	1,349,092
Claims payable	7,034,907	6,700,223
Total Liabilities	8,783,235	8,105,667
 <u>Net Position:</u>		
Unrestricted	20,549,285	16,464,587

Cash and cash equivalents increased significantly in comparison with the prior fiscal year-end. This increase is the result of operating income of \$3.6 million during the fiscal year.

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

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The table below shows the changes in net position for fiscal year 2019.

Change in Net Position

	2019
<u>Operating Revenues:</u>	
Member Premiums	\$ 74,906,273
Stop-Loss Premiums	2,528,308
Total operating revenues	77,434,581
<u>Operating Expenses:</u>	
Claims	62,248,430
Stop-Loss Premiums	5,613,341
Administrative Services	3,736,566
Brokerage Services	1,568,515
Affordable Care Act Fees	48,873
Consulting Services	203,696
Invoice Processing Services	178,380
Legal Services	73,674
Fiscal Agent Services	93,897
Miscellaneous	32,804
Total operating expenses	73,798,176
Operating income	3,636,405
<u>Non-operating revenues:</u>	
Interest revenue	448,293
Total non-operating revenues	448,293
Change in Net Position	4,084,698
Net position, July 1, Restated	16,464,587
Net position, June 30	\$ 20,549,285

A comparative analysis will be presented in future years when prior year information becomes available.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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.

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. Nan Nolder, 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, 2019

Assets:

Current Assets

Cash and Cash Equivalents	\$ 20,915,002
Investments	7,931,150
Accounts Receivable	449,421
Accrued Interest Receivable	15,880
Prepayments	21,067
Total Current Assets	<u>29,332,520</u>

Total Assets

29,332,520

Liabilities:

Current Liabilities

Accounts Payable	53,839
Unearned Revenue	1,694,489
Claims Payable	7,034,907
Total Current Liabilities	<u>8,783,235</u>

Total Liabilities

8,783,235

Net Position:

Unrestricted	20,549,285
Total Net Position	<u>\$ 20,549,285</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, 2019

Operating Revenues:	
Member Premiums	\$ 74,906,273
Stop-Loss Premiums	2,528,308
Total Operating Revenues	<u>77,434,581</u>
 Operating Expenses:	
Claims	62,248,430
Stop-Loss Premiums	5,613,341
Administrative Services	3,736,566
Brokerage Services	1,568,515
Affordable Care Act Fees	48,873
Consulting Services	203,696
Invoice Processing Services	178,380
Legal Services	73,674
Fiscal Agent Services	93,897
Miscellaneous	32,804
Total Operating Expenses	<u>73,798,176</u>
 Operating Income	 <u>3,636,405</u>
 Non-Operating Revenue:	
Interest Revenue	448,293
Total Non-Operating Revenue	<u>448,293</u>
 Change in Net Position	 4,084,698
 Net Position, Beginning of Fiscal Year, Restated	 <u>16,464,587</u>
Net Position, End of Fiscal Year	<u><u>\$ 20,549,285</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, 2019

Cash Flows from Operating Activities:	
Cash Received from Insurance Premiums	\$ 74,808,494
Cash Received from Stop Loss Premiums	2,549,423
Cash Payments for Claims	(61,913,746)
Cash Payments for Stop Loss Premiums	(5,613,341)
Cash Payments for Administrative Services	(3,736,566)
Cash Payments for Other Professional Services	(2,169,548)
Cash Payment for Other	(32,690)
Net Cash Provided by Operating Activities	3,892,026
Cash Flows from Investing Activities:	
Interest on Cash and Cash Equivalents	265,003
Cash Received from Investment Maturities	1,487,000
Cash Payments for Investment Purchases	(1,478,000)
Net Cash Provided by Investing Activities	274,003
Net Increase in Cash and Cash Equivalents	4,166,029
Cash and Cash Equivalents at Beginning of Fiscal Year	16,748,973
Cash and Cash Equivalents at End of Fiscal Year	\$ 20,915,002
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 3,636,405
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(422,061)
Prepaid Items	114
Accounts Payable	(2,513)
Unearned Revenue	345,397
Claims Payable	334,684
Net Cash Provided by Operating Activities	\$ 3,892,026

See accompanying notes to the basic financial statements.

-This page was intentionally left blank-

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2019, there were 44 participating member school districts of the Cooperative providing services to 7,535 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, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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, 2019, 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.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2020 premiums received in fiscal year 2019.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

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;

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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.

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, \$14,220,535 of the Cooperative's bank balance of \$20,915,003 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.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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	\$ 7,931,150	\$ 1,730,240	\$ 3,444,757	\$ 2,756,153

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).

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.

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."

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2019 for reinsurance was \$177,900.

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>6/30/2019</u>
Claims liability beginning of year	\$ 6,700,223
Incurred claims and claim adjustment expenses:	
Provision for insured events - current fiscal year	64,286,717
Increase (decrease) in the provision of insured events - prior fiscal years	<u>(552,442)</u>
Total incurred claims and claims adjustment expenses	<u>63,734,275</u>
Payments:	
Claims and claim adjustment expenses - current fiscal year	(60,912,294)
Claims and claim adjustment expenses - prior fiscal years	<u>(2,487,297)</u>
Total payment	<u>(63,399,591)</u>
Claims liability end of year	<u><u>\$ 7,034,907</u></u>

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 5 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF NET POSITION

Last fiscal year the Cooperative prepared their financial statements using the regulatory basis of accounting as prescribed by the State Auditor’s Office. This year the Cooperative prepared their financial statements in accordance with accounting principles generally accepted in the United States of America.

The implementation of this change had the following effects on net position of the Cooperative as they were previously reported.

Net Position June 30, 2018	\$ 24,677,120
Current Assets	(106,866)
Current Liabilities	<u>(8,105,667)</u>
Adjusted Net Position July 1, 2018	<u><u>\$ 16,464,587</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**OHIO SCHOOL AND 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 for the fiscal year ended June 30, 2019 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
CURRENT FISCAL YEAR

	2019
1. Earned premiums and investment revenues	77,882,874
2. Unallocated expenses	11,549,746
3. Estimated incurred claims and expenses, end of accident year	63,734,275
4. Paid, cumulative as of:	
End of accident year	60,912,294
One year later	-
Two years later	-
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	63,734,275
One year later	-
Two years later	-
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	-

Loss development information prior to fiscal year 2019 not available.

This page intentionally left blank.

December 4, 2019

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, 2019, 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 4, 2019, wherein we noted the Cooperative restated the net position balance to prepare the financial statements in accordance with generally accepted accounting principles.

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) to determine the 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 Cooperative'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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.

Cambridge, Ohio

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2019**

Finding Number	Finding Summary	Status	Additional Information
2018-001	Noncompliance with ORC 117.38 and 117-2-03(B)	Corrected	

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



**OHIO SCHOOL BENEFITS COOPERATIVE
MUSKINGUM COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2019**