

OHIO SCHOOL BENEFITS COOPERATIVE  
MUSKINGUM COUNTY, OHIO

*REGULAR AUDIT*

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020



OHIO AUDITOR OF STATE  
KEITH FABER



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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, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio School Benefits Cooperative is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

February 17, 2021

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

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December 12, 2020

To the Board of Directors  
Ohio School Benefits Cooperative  
Muskingum County, Ohio  
205 N. 7<sup>th</sup> 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, 2020, 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, 2020, 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 6, the financial impact of COVID-19 and the ensuing emergency measures will continue to impact subsequent periods of the Cooperative. Our opinion is not modified with respect to this matter.

***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 12, 2020, 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, 2020**

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, 2020. 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 2020 are as follows:

- The assets of the Cooperative exceeded its liabilities at the close of the most recent fiscal year by \$23.3 million, an increase of \$2.8 million in comparison with the prior fiscal year-end.
- The Cooperative's operating revenues exceeded operating expenses by \$2.1 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 2020?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the 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, 2020**

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 22-23 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, 2020 and June 30, 2019.

	<b>Net Position</b>	
	2020	2019
<u>Assets</u>		
Cash and cash equivalents	\$ 24,467,954	\$ 20,915,002
Investments	7,457,493	7,931,150
Accounts Receivable	-	449,421
Accrued Interest Receivable	12,529	15,880
Prepayments	20,267	21,067
Total Assets	31,958,243	29,332,520
<u>Liabilities:</u>		
Accounts payable	64,460	53,839
Unearned revenue	1,634,162	1,694,489
Claims payable	6,958,111	7,034,907
Total Liabilities	8,656,733	8,783,235
<u>Net Position:</u>		
Unrestricted	23,301,510	20,549,285

Cash and cash equivalents increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of operating income of \$2.1 million during the fiscal year.

Accounts receivable decreased significantly in comparison with the prior fiscal year-end. All members were current with their premium payments as of June 30, 2020, resulting in this decrease.

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

MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

	2020	2019
<b>Change in Net Position</b>		
<u>Operating Revenues:</u>		
Member Premiums	\$ 78,797,282	\$ 74,906,273
Stop-Loss Premiums	2,326,575	2,528,308
Total operating revenues	81,123,857	77,434,581
<u>Operating Expenses:</u>		
Claims	67,435,907	62,248,430
Stop-Loss Premiums	5,892,709	5,613,341
Administrative Services	3,587,635	3,736,566
Brokerage Services	1,499,961	1,568,515
Affordable Care Act Fees	51,979	48,873
Consulting Services	206,580	203,696
Invoice Processing Services	171,543	178,380
Legal Services	82,217	73,674
Fiscal Agent Services	90,238	93,897
Miscellaneous	39,678	32,804
Total operating expenses	79,058,447	73,798,176
Operating income	2,065,410	3,636,405
<u>Non-operating revenues:</u>		
Interest revenue	686,815	448,293
Total non-operating revenues	686,815	448,293
Change in Net Position	2,752,225	4,084,698
Net position, July 1	20,549,285	16,464,587
Net position, June 30	\$ 23,301,510	\$ 20,549,285

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.

Interest revenue increased significantly in comparison with the prior fiscal year. This increase is primarily the result of an increase in the fair market value of the Cooperative's investments resulting from the significant decline in interest rates during the fiscal year.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**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: Mr. Scott Pittman, Treasurer, Ohio School Benefits Cooperative, 205 North 7<sup>th</sup> Street, Zanesville, Ohio 43701.

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

STATEMENT OF NET POSITION  
AS OF JUNE 30, 2020

**Assets:**

Current Assets	
Cash and Cash Equivalents	\$ 24,467,954
Investments	7,457,493
Accrued Interest Receivable	12,529
Prepayments	20,267
Total Current Assets	<u>31,958,243</u>
Total Assets	<u>31,958,243</u>

**Liabilities:**

Current Liabilities	
Accounts Payable	64,460
Unearned Revenue	1,634,162
Claims Payable	6,958,111
Total Current Liabilities	<u>8,656,733</u>
Total Liabilities	<u>8,656,733</u>

**Net Position:**

Unrestricted	23,301,510
Total Net Position	<u><u>\$ 23,301,510</u></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, 2020

<b>Operating Revenues:</b>	
Member Premiums	\$ 78,797,282
Stop-Loss Premiums	2,326,575
Total Operating Revenues	<u>81,123,857</u>
<b>Operating Expenses:</b>	
Claims	67,435,907
Stop-Loss Premiums	5,892,709
Administrative Services	3,587,635
Brokerage Services	1,499,961
Affordable Care Act Fees	51,979
Consulting Services	206,580
Invoice Processing Services	171,543
Legal Services	82,217
Fiscal Agent Services	90,238
Miscellaneous	39,678
Total Operating Expenses	<u>79,058,447</u>
Operating Income	<u>2,065,410</u>
<b>Non-Operating Revenue:</b>	
Interest Revenue	686,815
Total Non-Operating Revenue	<u>686,815</u>
Change in Net Position	2,752,225
Net Position, Beginning of Fiscal Year	20,549,285
Net Position, End of Fiscal Year	<u><u>\$ 23,301,510</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, 2020

Cash Flows from Operating Activities:	
Cash Received from Insurance Premiums	\$ 79,170,485
Cash Received from Stop Loss Premiums	2,342,466
Cash Payments for Claims	(67,512,703)
Cash Payments for Stop Loss Premiums	(5,892,709)
Cash Payments for Administrative Services	(3,587,635)
Cash Payments for Other Professional Services	(2,097,965)
Cash Payment for Other	(32,810)
<b>Net Cash Provided by Operating Activities</b>	<b>2,389,129</b>
Cash Flows from Investing Activities:	
Interest on Cash and Cash Equivalents	428,822
Cash Received from Investment Maturities	1,731,000
Cash Payments for Investment Purchases	(995,999)
<b>Net Cash Provided by Investing Activities</b>	<b>1,163,823</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>3,552,952</b>
Cash and Cash Equivalents at Beginning of Fiscal Year	20,915,002
Cash and Cash Equivalents at End of Fiscal Year	<b>\$ 24,467,954</b>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 2,065,410
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	449,421
Prepaid Items	800
Accounts Payable	10,621
Unearned Revenue	(60,327)
Claims Payable	(76,796)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 2,389,129</b>

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, 2020

**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, 2020, there were 44 participating member school districts of the Cooperative providing services to 7,539 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, 2020

**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 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, 2020, 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, 2020

**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 2021 premiums received in fiscal year 2020.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

**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, 2020

**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, \$8,570,018 of the Cooperative's bank balance of \$23,349,136 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, 2020

**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	\$ 7,457,494	\$ 1,999,014	\$ 3,346,420	\$ 2,112,060
Money Market	1,118,817	1,118,817	-	-
<b>Total</b>	<b>\$ 8,576,311</b>	<b>\$ 3,117,831</b>	<b>\$ 3,346,420</b>	<b>\$ 2,112,060</b>

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.

*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, 2020

**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, 2020 for reinsurance was \$706,972.

**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><b>Fiscal Year Ending</b></u>	<u>6/30/2020</u>	<u>6/30/2019</u>
Claims liability beginning of year	\$ 7,034,907	\$ 6,700,223
Incurred claims and claim adjustment expenses:		
Provision for insured events - current fiscal year	67,214,107	66,696,685
Increase (decrease) in the provision of insured events - prior fiscal years	221,800	(2,962,410)
Total incurred claims and claims adjustment expenses	<u>67,435,907</u>	<u>63,734,275</u>
Payments:		
Claims and claim adjustment expenses - current fiscal year	(61,082,632)	(61,896,512)
Claims and claim adjustment expenses - prior fiscal years	<u>(6,430,071)</u>	<u>(1,503,079)</u>
Total payment	<u>(67,512,703)</u>	<u>(63,399,591)</u>
Claims liability end of year	<u>\$ 6,958,111</u>	<u>\$ 7,034,907</u>

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

**NOTE 5 – CHANGE IN BASIS OF ACCOUNTING**

For the fiscal year ended June 30, 2020, the Cooperative implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 postpones the effective dates of certain provisions in the statements that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The following statements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*

Certain provisions in the following statements are postponed by one year:

- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The following statement is postponed by 18 months:

- Statement No. 87, *Leases*

For the fiscal year ended June 30, 2020, the Cooperative also implemented paragraphs 4 and 5 of Governmental Accounting Standards Board Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Paragraph 4 increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a government board typically would perform and paragraph 5 mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. The implementation of paragraphs 4 and 5 of this Statement did not have an effect on the financial statements of the Cooperative.

For the fiscal year ended June 30, 2020, the Cooperative has early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and GASB Statement No. 92 *Omnibus 2020*.

GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of the Cooperative.

GASB Statement No. 92 enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of GASB Statement No. 92 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, 2020

**NOTE 6 – SUBSEQUENT EVENT**

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.

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**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 for the fiscal years ended June 30, 2020 and June 30, 2019 are 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 TWO FISCAL YEARS

	<b>2020</b>	<b>2019</b>
<b>1. Earned premiums and investment revenues</b>	81,810,672	77,882,874
<b>2. Unallocated expenses</b>	11,622,540	11,549,746
<b>3. Estimated incurred claims and expenses, end of accident year</b>	67,214,107	66,696,685
<b>4. Paid, cumulative as of:</b>		
End of accident year	61,082,632	61,896,512
One year later	-	68,326,583
Two years later	-	-
Three years later	-	-
Four years later	-	-
Five years later	-	-
Six years later	-	-
Seven years later	-	-
Eight years later	-	-
Nine years later	-	-
<b>5. Re-estimated incurred claims and expenses:</b>		
End of accident year	67,214,107	61,896,512
One year later	-	68,326,583
Two years later	-	-
Three years later	-	-
Four years later	-	-
Five years later	-	-
Six years later	-	-
Seven years later	-	-
Eight years later	-	-
Nine years later	-	-
<b>6. Increase (decrease) in estimated incurred claims and expenses from end of accident year</b>	-	1,629,898

Loss development information prior to fiscal year 2019 not available.

December 12, 2020

To the Board of Directors  
Ohio School Benefits Cooperative  
Muskingum County, Ohio  
205 N. 7<sup>th</sup> 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, 2020, 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 12, 2020, in which we noted that during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Cooperative.

***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 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 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 3/2/2021**

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](http://www.ohioauditor.gov)