

STATE EMPLOYEE  
HEALTH BENEFIT FUND  
Columbus, Ohio

Financial Statements  
and Supplementary Financial Information  
For the years ended June 30, 2013 and 2012  
  
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Fund Administrator  
State Employee Health Benefit Fund  
Columbus, Ohio

***Report on the Financial Statements***

We have audited the accompanying financial statements of the State Employee Health Benefit Fund (the Fund) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund'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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits 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 auditors' 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 entity'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 entity'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 respective net position of the State Employee Health Benefit Fund as of June 30, 2013 and 2012 and the respective change in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on Pages 3 through 6 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, which 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 February 28, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
February 28, 2014

STATE EMPLOYEE  
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the State Employee Health Benefit Fund Financial Report presents management's discussion and analysis of the Employee Health Benefit Fund's financial performance during the fiscal years ended June 2013 and June 2012.

The discussion and analysis of the State Employee Health Benefit Fund's (the Fund) financial performance provides an overall review of the financial activities for the fiscal years ended June 30, 2013 and June 2012. The intent of this discussion and analysis is to look at the Fund as a whole. Readers should also review the independent auditors' report, financial statements and the notes to the financial statements to enhance their understanding of the Fund's financial performance.

The Fund was created pursuant to Section 124.87 of the Ohio Revised Code. The Fund is administered by the Human Resources Division of the Department of Administrative Services, which is statutorily responsible for the Fund. Medical, mental health/substance abuse, prescription drug, wellness, dental and vision plans are provided to current employees, including board and commission members and COBRA participants.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - management's discussion and analysis (this section) and the basic financial statements including notes to the financial statements. The basic financial statements provide both long-term and short-term information about the Fund's overall financial status. Since the Fund uses only one fund for its operations, the entity-wide and the fund presentation information is the same.

#### FINANCIAL HIGHLIGHTS

Year Ended 2013:

- The Fund's net position increased by 21.4% or \$18,355,243
- Total assets decreased by 8.0% or \$ 13,214,471.
- Total liabilities decreased by 39.3% or \$31,569,714.
- The estimated liability for prepaid premiums decreased by \$35,701,880, and the estimated liability for pending and unreported claims increased by \$747,000.
- Additions increased by 2.4% or \$14,233,763.
- Expenses increased by 5.1% or \$28,250,975.

For fiscal year 2013, the Fund had an operating gain of \$18.4 million. The operating gain was a result of several factors, including a steady decrease in enrollment including members from a higher-cost demographic, contributions to the Fund outpacing expenses from the Fund, pharmacy rebates received and a portion of the prepaid premium being released but not utilized for contributions.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

REQUIRED COMPONENTS OF THE STATE OF OHIO EMPLOYEE HEALTH BENEFIT FUND'S ANNUAL FINANCIAL REPORT

Components of the Fund's annual report are the Management's Discussion and Analysis and the basic financial statements, which include notes to the financial statements.

The Fund's basic financial statements include the following information:

- Scope - Employee Health Benefit Fund.
- Required financial statements - Statements of net position, statements of additions, expenses and change in net position and statements of cash flows.
- Accounting basis and measurement focus - Accrual accounting and economic resources focus.
- Type of asset/liability information - All assets and liabilities, both financial and capital, and long-term and short-term.
- Type of inflow and outflow information - All revenue and expenses during the fiscal year, regardless of when cash is received or paid.

The Fund's basic financial statements are considered government-wide financial statements. They report about the Fund as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Fund's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of additions, expenses and change in net position, regardless of when cash is received or paid. The statement of cash flows reconciles the accrual basis change in net position to the cash provided by or used by the Fund.

The two financial statements report the Fund's net assets and how they have changed. Net position - the difference between the Fund's assets and liabilities - are one way to measure the Fund's financial health or position.

- Over time, the increases or decreases in the Fund's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- Assessing the overall health of the Fund requires consideration of financial factors such as market costs and pressures, and agreements between management and labor.

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Position

The Fund's net position increased by \$18.4 million in fiscal year 2013. Total assets decreased by \$13.2 million and total liabilities decreased by \$31.6 million in the same period due to a release of prepaid premiums in April 2013 facilitated by non-collection of contributions.

	<u>2013</u>	<u>2012</u>
Total Assets	\$ 152,878,810	\$ 166,093,281
Total Liabilities	48,862,567	80,432,281
Net Position	104,016,243	85,661,000

STATE EMPLOYEE  
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

Statement of Additions, Expenses and Changes in Net Position

The Fund's program revenue increased by 2.4% or \$14.2 million; revenues are derived primarily from healthcare contributions, collected from employees, agencies and COBRA participants, pharmacy rebates and interest income. The total expenses of the Fund increased by 5.1% or \$28.3 million; the Fund's expenses include benefit payments, administrative fees, consulting costs, actuary studies and audits of the fund.

	<u>2013</u>	<u>2012</u>
Total Additions	\$ 597,120,855	\$ 582,887,092
Total Expenses	578,765,612	550,514,637
Change in Net Position	18,355,243	32,372,455
Ending Net Position	104,016,243	85,661,000

Operational Analysis

About 45,733 state employees were enrolled in the health plans related to the Fund for FY 2013. FY 2013 change in net position totaled \$18.4 million. Fund assets of \$152.9 million at the end of FY 2013 were sufficient to cover estimated liabilities for reported, pending and unreported claims of \$45.0 million.

FINANCIAL HIGHLIGHTS

Year Ended 2012:

- The Fund's net position increased by 60.8% or \$32,372,455.
- Total assets increased by 19.0% or \$26,472,077.
- Total liabilities decreased by 6.8% or \$5,900,378.
- The estimated liability for prepaid premiums decreased by \$2,970,120 and the estimated liability for pending and unreported claims decreased by \$1,822,000.
- Additions decreased by 0.7% or \$3,974,399.
- Expenses increased by 2.6% or \$13,749,336.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Position

The Fund's net position increased by \$32.4 million in fiscal year 2012. Total assets increased by \$26.5 million, and total liabilities decreased by \$5.9 million in the same period.

	<u>2012</u>	<u>2011</u>
Total Assets	\$ 166,093,281	\$ 139,621,204
Total Liabilities	80,432,281	86,332,659
Net Position	85,661,000	53,288,545

Statement of Additions, Expenses and Changes in Net Position

The Fund's program revenue decreased by 0.7% or \$3,974,399; revenues are derived primarily from healthcare premiums collected from employees, agencies and COBRA participants, pharmacy rebates and interest income. The total expenses of the Fund increased by 2.6% or \$13,749,336; the Fund's expenses include payments of claims and incentives, third-party administration and consulting fees.

	<u>2012</u>	<u>2011</u>
Total Additions	\$ 582,887,092	\$ 586,861,491
Total Expenses	550,514,637	536,765,301
Change in Net Position	32,372,455	50,096,190
Ending Net Position	85,661,000	53,288,545

Operational Analysis

About 46,164 state employees were enrolled in the health plans related to the Fund for FY 2012. FY 2012 change in net position totaled \$32.4 million. Fund assets of \$166.1 million at the end of FY 2012 were sufficient to cover estimated liabilities for reported, pending and unreported claims of \$44.2 million and prepaid premiums totaling \$35.7 million.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash		
Third-Party Administrators:		
United Health Care	\$ 6,078,684	\$ 2,080,280
United Behavioral Health	152,324	-
Paramount	9,437	17,718
The Health Plan	356	2,735
Medical Mutual of Ohio	-	1,107,723
Delta Dental	170,383	155,500
CASH EQUIVALENT		
Investment in STAR Ohio	143,023,014	153,412,318
OTHER RECEIVABLES	<u>3,444,612</u>	<u>9,317,007</u>
Total Assets	152,878,810	166,093,281
<b>LIABILITIES</b>		
Due Third-Party Administrators:		
Medical Mutual of Ohio	\$ 3,495,662	-
Delta Dental	-	\$ 41,235
Accounts payable	413,905	483,166
Estimated liability for pending and unreported claims	44,953,000	44,206,000
Estimated liability for prepaid premiums	-	35,701,880
Total Liabilities	<u>48,862,567</u>	<u>80,432,281</u>
<b>UNRESTRICTED NET POSITION</b>	<u>\$ 104,016,243</u>	<u>\$ 85,661,000</u>

See notes to financial statements.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

STATEMENTS OF ADDITIONS, EXPENSES AND CHANGE IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ADDITIONS</b>		
Payroll and State Contributions:		
Health funds	\$ 563,034,164	\$ 542,812,787
Vision funds	3,108,405	3,061,008
Dental funds	11,776,833	11,528,503
COBRA funds	1,028,882	1,391,452
Total Contributions	<u>578,948,284</u>	<u>558,793,750</u>
Interest income	404,408	323,556
Other revenues	17,768,163	23,769,786
Total Additions	<u>597,120,855</u>	<u>582,887,092</u>
<b>EXPENSES</b>		
Claims Paid:		
Health benefits	430,493,340	413,479,595
Pharmacy prescriptions	103,801,264	99,035,395
Vision benefits	2,810,514	2,865,184
Dental benefits	9,894,281	8,730,813
Mental health/substance abuse care benefits	11,702,189	10,319,975
Change in estimated pending and unreported claims	747,000	(1,822,000)
Change in estimated prepaid premiums	(2,968,051)	(2,970,120)
Third-party administrative fees	13,174,646	13,252,872
Wellness incentives	3,010,340	1,114,525
Third-party administrator professional fees	2,022,264	1,194,715
Wellness vendor services	3,473,745	4,172,655
Consulting	470,590	947,924
Other expenses	133,490	193,104
Total Expenses	<u>578,765,612</u>	<u>550,514,637</u>
Change In Net Position	18,355,243	32,372,455
<b>NET POSITION</b>		
Beginning of year	<u>85,661,000</u>	<u>53,288,545</u>
End of year	<u>\$ 104,016,243</u>	<u>\$ 85,661,000</u>

See notes to financial statements.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING ACTIVITIES</b>		
Change in net position	\$ 18,355,243	\$ 32,372,455
Adjustments to reconcile change in net position to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Other receivables	5,872,395	(9,303,307)
Contributions receivable	-	21,356,627
Accounts payable and third-party payables	3,385,166	(1,108,258)
Estimated pending and unreported claims	747,000	(1,822,000)
Estimated prepaid premiums	<u>(35,701,880)</u>	<u>(2,970,120)</u>
 Net Cash (Used In) Provided By Operating Activities	 <u>(7,342,076)</u>	 <u>38,525,397</u>
 Net (Decrease) Increase In Cash And Cash Equivalents	 (7,342,076)	 38,525,397
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>156,776,274</u>	<u>118,250,877</u>
 End of year	 <u>\$ 149,434,198</u>	 <u>\$ 156,776,274</u>

See notes to financial statements.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF FUND

The following description of the State Employee Health Benefit Fund (the Fund) provides only general information. The Fund was created in 1981 pursuant to Section 124.87 of the Ohio Revised Code (ORC). It was established in the State of Ohio (State) treasury to provide State employees with health and other benefits. The Department of Administrative Services (DAS) of the State of Ohio is statutorily responsible for the Fund. The administrator of the Fund is the Human Resources Division of DAS.

Eligibility - Permanent full-time and permanent part-time exempt and union employees are eligible for medical benefits on the first day of the month following their date of hire. Permanent full-time and permanent part-time exempt employees are eligible for dental and vision benefits on the first day of the month following one full year of continuous state service. Dental and vision benefits for union employees are administered outside of the Fund, through the Union Benefits Trust.

Contributions and Funding - The Fund pays the full cost of some benefits. State employees are required to make contributions for the full cost or a portion of the cost for other benefits of the Fund, as determined by the Fund administrator. All contributions for benefit programs that are fully insured are paid to the applicable insurance carrier. Benefits that are not fully insured are paid from the Fund.

Benefits - The Fund provides various benefit programs, including medical with prescription drug, vision, dental, mental health/substance abuse, wellness, and COBRA coverage to its eligible employees and their dependents.

Contributions and Benefit Payments - The amount of contributions and benefit payments depends on the coverages elected by the employee. Some coverages have co-pays, deductibles, coinsurance and out-of-pocket expenses that are payable by the participant. The Fund is self-insured with respect to medical, vision and dental coverage. Employer/state agency contributions are made to the extent that claims paid by the service contractor exceed the Fund assets available.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied consistently by the Fund in preparation of the accompanying financial statements follow:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues and expenses are recognized in the period earned or incurred.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of Financial Accounting Standards Board (FASB) Statements and Interpretation - In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund follows GASB guidance as applicable to proprietary funds and is required to apply FASB Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, the Fund has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The GASB has recently issued the following new accounting pronouncements that will be effective in future years and may be relevant to the Fund:

- GASB No. 65, “Items Previously Reported as Assets and Liabilities”
- GASB No. 66, “Technical Corrections - an amendment of GASB Statements No. 10 and No. 62”
- GASB No. 69, “Government Combinations and Disposals of Government Operations”
- GASB No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”

Fund management has not yet determined the impact of these new GASB pronouncements will have on the Fund’s financial statements.

Use of Estimates - The preparation of the financial statements in conformity with U.S. GAAP requires the Fund administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, unreported claims, claims payable, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Payroll Withholdings and State Contributions - Contributions to the self-insured programs are made by employees via payroll deductions and by employer/state agencies via additional contributions.

Claims Paid - Benefit payments recorded in the accompanying financial statements represent payments made by third-party administrators on behalf of eligible State employees and paid as part of the State’s health benefit program.

Claim payments are recorded when paid by the third-party administrator. Amounts due to claims processors that have yet to be reimbursed by the Fund are recorded as payable to third-party administrator in the accompanying statements of net position. These payments are recorded as claims paid in the accompanying statements of additions, expenses and change in net position.

Refunds - Refunds due from the Fund’s third-party administrators are recorded when earned. Refunds due as of the financial statement date have been reported as a receivable and other revenues.

STATE EMPLOYEE  
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unreported Claims - The Fund accrues for the estimated amounts of claims pending, but unreported. These reserves are established by Fund management based upon the recommendations of actuarial consultants. The actuarial consultants develop this reserve based on the analysis of the historical claim payment pattern to estimate the ultimate paid claims for relatively recent incurral periods that are incomplete or which the claims payer has not paid all eventual claims. These methods rely on the basic assumption that historical payment patterns are consistent and can be used to estimate future claims. The current projected trend rates used to calculate the reserve were 8.4% for medical, 4.0% for vision and 5.0% for dental. The prior-year projected trend rates used were 9% for medical, 7% for vision and 6% for dental. Actual claim settlements might differ materially from these estimated reserve amounts. As of June 30, 2013 and 2012, the Fund has accrued \$44,953,000 and \$44,206,000, respectively, for claims pending, but not reported.

Estimated Prepaid Premiums - The Fund accrued for estimated premiums received by the Fund for premiums intended for the month following an employee's separation who was covered at June 30, 2009 and had not since separated from State employment otherwise. This reserve was established by management based upon the recommendations of the actuarial consultants who estimated the reserve based on the original June 30, 2009 remaining amounts attributable to each health plan. As of June 30, 2013, the estimated prepaid premium balance was zero. During the current year, affected employees were given a premium rate holiday for one month. As a result, approximately \$32,734,000 was used to fund one month worth of contributions and is recorded as payroll and state contributions additions in the accompanying financial statements. The remaining balance of approximately \$2,968,000 was a result of the change in actuary results during the year and is reflected as a change in prepaid premiums in the accompanying financial statements. At June 30, 2012, \$35,701,880 was accrued for estimated premiums received by the Fund.

Reclassifications - Certain prior-year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on the total change in net assets for the year ended June 30, 2012.

NOTE 3 - CASH AND INVESTMENTS

Investments of the Fund are managed by the Treasurer of the State of Ohio (Treasurer) and are held in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is structured similarly to a money market account with no restrictions on the number of transfers and no minimum balance required.

Each share has a value of \$1, of which amount approximately 59.7% is invested in U.S. Government and Federal Agency securities, approximately 7.5% in money market accounts, 24.9% in commercial paper maturing within 180 days, and the remainder is invested in corporate bonds and bank deposits. All investments are held at Huntington National Bank in Columbus, Ohio. The Treasurer is the custodian for the Fund's cash balance. The deposits are covered by collateral pledged to the Treasurer and held by third-party trustees pursuant to Section 135.18 of the ORC. The Treasurer requires that depositories pledge collateral with a market value of 102% of deposits and qualifying investments.

Statement No. 3 as amended by Statement No. 40 of the GASB requires government organizations to disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate and investment maturity, interest rate sensitivity, and foreign exchange exposure.

STATE EMPLOYEE  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits might not be returned to it. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2013, the Fund had \$6,411,184 in deposits that were held by third-party administrators that are exposed to custodial credit risk.

As of June 30, 2013, the Fund had the following investments and maturities:

<u>Investment Fund</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Days to Maturity</u>
STAR Ohio	\$ <u>143,023,014</u>	\$ <u>143,023,014</u>	<u>1</u>
	\$ <u>143,023,014</u>	\$ <u>143,023,014</u>	<u>1</u>

As of June 30, 2012, the Fund had the following investments and maturities:

<u>Investment Fund</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Days to Maturity</u>
STAR Ohio	\$ <u>153,412,318</u>	\$ <u>153,412,318</u>	<u>1</u>
	\$ <u>153,412,318</u>	\$ <u>153,412,318</u>	<u>1</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Fund currently limits its investments to funds within STAR Ohio.

Credit Risk - Standard & Poor's rating service has assigned STAR Ohio an AAA money market rating.

Concentration of Credit Risk - The Fund does not place any investments outside of its STAR Ohio investments.

Custodial Credit Risk - Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either a counterparty or the counterparty's trust department or agent, but not in the government's name. As of June 30, 2013, the Fund did not have any investments subject to custodial credit risk.

All funds held by the Treasurer and third-party administrators are considered cash and cash equivalents.

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SUPPLEMENTARY FINANCIAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Fund Administrator  
State Employee Health Benefit Fund  
Columbus, Ohio

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 the State Employee Health Benefit Fund (the Fund) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 28, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Fund'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 Fund'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 Fund'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
February 28, 2014