

**SOUTHWESTERN OHIO EDUCATIONAL  
PURCHASING COUNCIL BENEFIT PLAN TRUST,  
MEDICAL INSURANCE AND BENEFIT PLAN**

Basic Financial Statements

June 30, 2006

With

Independent Auditors' Report





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Southwestern Ohio Educational Purchasing Council  
- Medical Insurance and Benefit Plan Trust  
303 Corporate Center Drive  
Suite 208  
Vandalia, Ohio 45377

We have reviewed the *Independent Auditor's Report* of the Southwestern Ohio Educational Purchasing Council - Medical Insurance and Benefit Plan Trust, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. 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 Southwestern Ohio Educational Purchasing Council - Medical Insurance and Benefit Plan Trust is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

September 28, 2007

**This Page is Intentionally Left Blank.**

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
<u>Financial Statements</u>	
Balance Sheet	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-15
<u>Supplemental Schedules</u>	
Claims Development	16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17-18

**This Page is Intentionally Left Blank.**



**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS  
[www.cshco.com](http://www.cshco.com)

Independent Auditors' Report

Board of Trustees  
Southwestern Ohio Educational Purchasing Council  
- Medical Insurance and Benefit Plan Trust  
303 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Medical Insurance and Benefit Plan (the Medical Trust) of the Southwestern Ohio Educational Purchasing Council as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Medical Trust's management. 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Insurance and Benefit Plan of the Southwestern Ohio Educational Purchasing Council as of June 30, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2007, on our consideration of the Medical Trust'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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis (pages 3 through 6) and the Schedule of Claims Development (page 16) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
July 31, 2007



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Management's Discussion and Analysis  
For the Year Ended June 30, 2006

---

The discussion and analysis of Southwestern Ohio Educational Purchasing Council's Benefit Plan Trust, Medical Insurance and Benefit Plan, (the Medical Trust) financial performance provides an overall review of the financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. We encourage the reader to consider the information presented here in conjunction with the basic financial statements taken as a whole.

The Medical Trust:

The Medical Trust is a duly organized and existing Regional Council of Governments formed under the auspices of Chapter 167 of the Ohio Revised Code, which allows it to perform any function or duty performable by its member school districts. Prior to October 1, 2004, the benefits through the Medical Trust were provided by two separate plan options; an insurance purchasing pool and a risk sharing (self-insurance) pool. Effective October 1, 2004 all benefits were provided through separate risk sharing pools with separate providers. Community Insurance Company, dba Anthem, and United HealthCare Insurance Company provide third party administration services for their respective plan options.

Risk sharing pools, or self-insurance pools, pay claims submitted by covered employees from contributions collected and maintained by the Medical Trust, and therefore, the majority of the risk remains with the Medical Trust. For fiscal year 2006, two different plan options were available; Anthem and United HealthCare. Claims submitted under each option are processed by the respective insurance companies, who act as third party administrators (TPA), in accordance with benefits established by the Medical Trust. To help minimize the risk exposure of the Medical Trust, stop-loss insurance is purchased. For policy year 2006 the stop-loss limits were set at \$400,000 specific and 120 percent aggregate for United HealthCare and Anthem. For fiscal year 2006, the Anthem option plan had thirty-five participating school districts with approximately 4,700 covered employees and the United HealthCare plan option had twenty-one participating school districts with approximately 4,500 covered employees.

Basic Financial Statements and Presentation:

The financial statements presented by the Medical Trust are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements are presented using the accrual basis of accounting. Revenues are recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. The Medical Trust is structured as one enterprise fund.

The Balance Sheet:

The Balance Sheet presents information on all of the Medical Trust's assets and liabilities. Assets consist mainly of cash and investments, as well as receivables for premiums due. Liabilities consist mainly of claims payable and unearned participant contributions.

Table 1 provides a summary of the Medical Trust's net assets for 2006 compared with 2005.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Management's Discussion and Analysis  
For the Year Ended June 30, 2006

**TABLE 1  
NET ASSETS**

	<u>2006</u>	<u>2005</u>
<u>Assets:</u>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 5,530,391	\$ 6,537,181
Premium receivable	<u>33,797</u>	<u>38,159</u>
<i>Total Current Assets</i>	5,564,188	6,575,340
<i>Noncurrent Assets:</i>		
Investments	<u>12,213,791</u>	<u>7,260,273</u>
Total Assets	<u>17,777,979</u>	<u>13,835,613</u>
<u>Liabilities:</u>		
<i>Current Liabilities:</i>		
Accounts payable	283,938	30,000
Processed claims payable	640,110	878,577
Reserve for claims payable	6,533,000	6,963,790
Unearned participants contributions	<u>2,725,891</u>	<u>1,827,259</u>
Total Liabilities	<u>10,182,939</u>	<u>9,699,626</u>
<u>Net Assets:</u>		
Unrestricted	<u>7,595,040</u>	<u>4,135,987</u>
Total Net Assets	<u>\$ 7,595,040</u>	<u>\$ 4,135,987</u>

While the cash and cash equivalent amount reported at June 30, 2006 was \$1,006,790 less than the amount reported at June 30, 2005, it should be pointed out that the investment balance reported for fiscal year 2006 was \$4,953,518 higher than the balance reported for the previous fiscal year. As Medical Trust became more familiar with the amount of cash that was needed to pay the claims of both plan options throughout fiscal year 2006, it was determined that more of the financial resources could be moved to high-yielding, relatively short-term investments. Also fiscal year 2006 represents the first full year that the Anthem plan was completely a self-insurance pool resulting in 70 percent more investment earnings in fiscal year 2006 as compared with the prior fiscal year. All investments of the Medical Trust are in equities bonds and notes of federally sponsored agencies.

Reserves for claims payable are liabilities carried for unpaid claims, both reported and unprocessed as well as incurred but unreported, existing at the end of the fiscal year. The reserve for claims payable is established annually with the assistance of an outside actuary based on statistical models. The reserve for claims payable amount reported at June 30, 2006 decreased by \$430,790 over the liability reported for the previous year due to the good claim history experience in recent years. Processed claims payables represent claims which have been processed and paid by the TPA but have not been presented for payment.

The increase in amount reported for accounts payable at the end of fiscal year 2006 was due to a payment owed to one of the TPAs for services provided in fiscal year 2006 but payment was not remitted until after year end. Unearned participant contributions increased 49 percent from the amount reported on June 30, 2005 due to the timing in which member districts pay their contributions. Fiscal year 2006 represented the first full-year that this plan option was completely a self-insured pool.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Management's Discussion and Analysis  
For the Year Ended June 30, 2006

The Statement of Revenues, Expenses and Changes in Net Assets:

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Medical Trust's net assets changed during the year. During 2006, the Medical Trust reported an increase in net assets of \$3.5 million or 83.6 percent of the total net assets reported for June 30, 2005. This increase resulted primarily from increased contributions by member districts, lower than expected claims and increased earnings on investments. With the necessary reserve required, as determined by the actuary, included as a liability, the unrestricted net assets totaled \$7,567,040 at year end or approximately 9.5 percent of the Medical Trust's operating expenses reported for fiscal year 2006. A increase in net assets should not be associated with "over-funding" as it is not unusual for a year with lower claims experience to be followed with one that has higher than expected claims. Establishing appropriate reserves to address these fluctuations in claims is a necessity of all risk sharing insurance pools. The Medical Trust will distribute any excess funding back to member districts if deemed appropriate.

Table 2 shows the changes in net assets for the year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

**TABLE 2  
CHANGES IN NET ASSETS**

	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
Net member premiums	\$ 82,149,278	\$ 72,804,510
Prescription rebates	<u>715,423</u>	<u>-</u>
Total Operating Revenues	<u>82,864,701</u>	<u>72,804,510</u>
<u>Operating Expenses:</u>		
Insurance premiums paid for health insurance	-	8,516,281
Claims expense	74,762,192	60,060,292
Third party administrator expense	4,839,976	4,302,285
Administrative expense	<u>239,655</u>	<u>266,212</u>
Total Operating Expenses	<u>79,841,823</u>	<u>73,145,070</u>
Operating Loss	<u>3,022,878</u>	<u>(340,560)</u>
<u>Non-Operating Revenues:</u>		
Interest and dividends	<u>436,175</u>	<u>256,327</u>
Change in Net Assets	3,459,053	(84,233)
Net Assets at Beginning of Year	<u>4,135,987</u>	<u>4,220,220</u>
Net Assets at End of Year	<u>\$ 7,595,040</u>	<u>\$ 4,135,987</u>

As shown in table 2, approximately 93.6 percent of the \$79.8 million in expenses reported by the Medical Trust for fiscal year 2006 were directly related to the settlement of claims submitted by covered employees. The claims expense is \$14.7 million more than the prior year as fiscal year 2006 was the first full fiscal year the Anthem plan option was operated entirely as a self-insured pool. In addition, another 6.1 percent of the expenses were paid to the third party administrator of the self-insured plan to process and administer the submitted claims. Administrative expenses represent the remaining \$239,655 or 0.3 percent of the total expenses of the Medical Trust for the fiscal year.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Management's Discussion and Analysis  
For the Year Ended June 30, 2006

---

The Statement of Cash Flows:

The Statement of Cash Flows allows the reader of the financial statements to assess the Medical Trust's adequacy or ability to generate sufficient cash flow to meet its obligations in a timely manner. During fiscal year 2006 the cash and cash equivalents of the Medical Trust decreased by just over \$1.0 million over the amount reported at June 30, 2005. While the operation of the Medical Trust generated a \$3.5 million surplus for the year, these additional funds were placed into investment vehicles instead of keeping them as readily available cash and cash equivalents. The investment account of the Medical Trust increased by approximately \$5.0 million from the amount reported one year prior.

Contacting the Administration of the Medical Trust:

This financial report is designed to provide member school districts and other users with a general overview of the Medical Trust's finances and to show accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact Barbara Coriell, Administrator at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377 or by calling (937) 890-3725.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Balance Sheet

June 30, 2006

---

Assets

Current assets:

Cash and cash equivalents \$ 5,530,391

Receivables:

Premium receivable 33,797

Total current assets 5,564,188

Noncurrent assets:

Investments 12,213,791

Total noncurrent assets 12,213,791

Total assets 17,777,979

Liabilities

Current liabilities:

Accounts payable 283,938

Matured outstanding claims payable 640,110

Reserve for claims payable 6,533,000

Unearned participant contributions 2,725,891

Total liabilities 10,182,939

Net assets

Unrestricted 7,595,040

Total net assets \$ 7,595,040

See accompanying notes to the financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2006

---

<u>Operating revenues:</u>	
Member Premiums:	
Participant contributions	\$ 83,349,248
Excess Insurance premiums	<u>(1,199,970)</u>
Net premiums	82,149,278
Prescription rebates	<u>715,423</u>
 Total operating revenues	 <u>82,864,701</u>
 <u>Operating expenses:</u>	
Claims expense	74,762,192
Third party administrator expense	4,839,976
Administrative expense	<u>239,655</u>
 Total operating expenses	 <u>79,841,823</u>
 Operating income	 <u>3,022,878</u>
 <u>Non-operating revenues:</u>	
Interest earnings	<u>436,175</u>
 Total non-operating revenues	 <u>436,175</u>
 Change in net assets	 3,459,053
 Net assets at beginning of year	 <u>4,135,987</u>
 Net assets at end of year	 <u>\$ 7,595,040</u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Statement of Cash Flows  
Year Ended June 30, 2006

<b><u>Cash flows from operating activities:</u></b>	
Cash received for premium contributions	\$ 84,252,242
Cash received for prescription rebates	715,423
Cash payments for claim payments	(75,431,449)
Cash payments for excess insurance	(1,199,970)
Cash payments for claim administration	(4,577,268)
Cash payments for office expenses	<u>(248,425)</u>
Net cash provided by operating activities	<u>3,510,553</u>
 <b><u>Cash flows from investing activities:</u></b>	
Purchase of investments	(8,308,518)
Proceeds from sale of investments	3,355,000
Interest earnings	<u>436,175</u>
Net cash provided by investing activities	<u>(4,517,343)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,006,790)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,537,181</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,530,391</u>
 <b><u>Reconciliation of operating income to net cash provided by operating activities</u></b>	
Operating loss	\$ 3,022,878
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in assets and liabilities:	
Increase in premium receivables	4,362
Increase in accounts payable	253,938
Decrease in matured outstanding claims payable	(238,467)
Decrease in reserve for claims payable	(430,790)
Increase in unearned participant contributions	<u>898,632</u>
Total Adjustments	<u>487,675</u>
Net cash provided by operating activities	<u>\$ 3,510,553</u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

---

1. Description of the Plan:

The following description of the Southwestern Ohio Educational Purchasing Council Benefit Plan Trust, Medical Insurance and Benefit Plan (the Medical Trust) provides only general information. Participants should refer to the Medical Trust Agreement for a more complete description of the Trust's provisions. The Southwestern Ohio Educational Purchasing Council is a duly organized and existing Regional Council of Governments formed under the auspices of Chapter 167 of the Ohio Revised Code, which allows it to perform any function or duty performable by its member school districts.

General

The Medical Trust provided for group medical benefits for the employees of participating school districts, and to dependents and designated beneficiaries of such employees under two separate plan options: one administered by the Community Insurance Company (dba Anthem) and the other administered by United HealthCare Insurance Company. Both plan options are considered to be risk sharing (self-insurance) pools. Claims submitted by covered employees are processed by the third party administrators (TPA), currently United HealthCare and Anthem, in accordance with the benefits established by the Medical Trust. Payments of these claims are settled by the contributions collected and maintained by the Medical Trust and, therefore, the majority of the claim risk remains with the Medical Trust.

The Medical Trust has purchased stop-loss insurance to help minimize its total risk exposure. During fiscal year 2006 stop-loss insurance limits were set at \$400,000 specific and 120 percent aggregate claims expected for each of the plan options from October 1, 2005 to June 30, 2006. For the period of July 1, 2005 to September 30, 2005, the stop-loss insurance limits were set at \$400,000 specific and 120 percent aggregate expected claims for the United HealthCare plan option and \$300,000 specific and 120 percent aggregate expected claims for the Anthem plan option. Each plan option has an effective policy year of October 1 through September 30 of the following calendar year.

As of June 30, 2006 the United HealthCare plan option had twenty-one participating school districts with approximately 4,500 covered employees. The Anthem plan option had thirty-five participating school districts with approximately 4,700 covered employees.

Benefits

The Medical Trust establishes and maintains the fund to provide health and life insurance and health care and other benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. Any amount of such benefits, as the Medical Trustees may determine, may be provided in whole or in part through one or more insurance policies. Benefit levels are determined by the participating school districts in consultation with the Medical Trust.



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

---

Contributions

Under the terms of the Medical Trust Agreement, participating school districts make monthly (or more frequent, if necessary) premium payments to fund claims, claim processing expenses, stop-loss insurance premiums, administrative costs, as well as sufficiently fund adequate reserves.

Participating school districts contribute an amount that is determined by the number of eligible employees and dependents for that month multiplied by funding amounts established by the Medical Trust at the October 1<sup>st</sup> renewal date. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. It has been the practice of the Medical Trust that every other year school districts are reassessed individually to ensure contributions are in line with average claim costs encountered over the previous two years. In the off year, all participating school districts receive the same renewal percentage change.

2. Summary of Accounting Policies:

The following accounting principles and practices of the Medical Trust are set forth to facilitate the understanding of data presented in the financial statements.

Basis of accounting:

The Medical Trust follows the accrual basis of accounting as required by enterprise funds and is not legally required to adopt a budget. All transactions are accounted for in a single enterprise fund. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Trust has elected not to apply the provisions for the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Association will continue to apply all applicable pronouncements issued by the GASB.

Cash and cash equivalents:

All deposits with financial institutions, and a State of Ohio depository institution, having an original maturity of 90 days or less are reported as cash and cash equivalents.

Investments:

Investments are carried at stated market value. Realized gains and losses are determined on the identified cost basis. Unrealized gains and (losses) are included as a component of investment earnings.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

---

The investments of the Medical Trust follow the requirements of the Ohio Revised Code which permits investment in obligations of the United States Government, or other investments where the principal and interest are collateralized by the full faith and credit of the United States Government, bonds or other obligations issued by any federal agency or instrumentality, and bonds of the state of Ohio and its political subdivisions.

Claims Payable:

Provision for claims payable is based on information calculated by the TPA and the Medical Trust's actuary. This amount represents claims that have been processed but not yet presented for payment and an estimate of reported, unpaid claims, plus a provision for claims incurred but not reported. The Medical Trust believes this estimate of its liability for claims payable is reasonable and supported by valid actuarial calculations; however, actual incurred claim expense may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of claims may vary from the estimated amounts included in the accompanying financial statements.

Should the provisions for claims payable not be sufficient, the Medical Trust will utilize unrestricted net assets to cover the excess claims. Future member contributions will be adjusted at the next renewal date, if necessary, to ensure adequate reserve coverage is maintained.

Unearned participant contributions:

Unearned participant contributions represent contributions from member school district's received prior to the end of the fiscal year but are intended to fund required contributions for the subsequent fiscal year.

Net assets:

Net assets represent the difference between assets and liabilities. It is displayed in three separate components as follows:

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

As of June 30, 2006, the Medical Trust does not have any net assets meeting the definition of “invested in capital assets, net of related debt” or “restricted” net assets. As deemed appropriate by the Board of Trustees, the Medical Trust may distribute all or part of the unrestricted net assets to participating school districts during years when surplus funds are reported.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

---

In the event of the termination of the Medical Trust, net assets will be used to settle all claims and other obligations incurred by the Medical Trust, as well as establishing an appropriate reserve to settle any future claims. Remaining net assets will be distributed based on the discretion of the Board of Trustees.

Classification of revenue:

The Medical Trust classifies its revenues as either operating or non-operating. Non-operating revenue is a result of the receipt of interest income. Contributions from participating school districts and prescription rebates are recognized on the accrual basis and are recorded as revenue in the period earned.

Tax status:

The Medical Trust is exempt from income taxes due to the fact that it is defined as a Council of Governments. According to the Internal Revenue Service filing requirements, due to its governmental status the plan is excluded from the Form 5500 filing requirements.

ERISA:

Due to the Plan being deemed a governmental plan by the Internal Revenue Service, it is not covered by the rules and regulations of ERISA, Title I.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Medical Trust's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Deposits and Investments:

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Medical Trust's deposits may not be returned to it. Protection of the Medical Trust's deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institution.

At year-end, the carrying amount of the Medical Trust's deposits was \$5,530,391 with the bank balance being the same amount. Of the bank balance, \$200,000 was covered by federal depository insurance and \$5,330,391 was subject to custodial credit risk as it was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Medical Trust to a successful claim by the Federal Deposit Insurance Corporation.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

Investments

Investments are reported at fair value. As of June 30, 2006, the Medical Trust had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total Investments</u>	<u>Maturities (in Years)</u>		
			<u>Less than 1</u>	<u>1 to 3</u>	<u>4 to 5</u>
FHLB	\$ 8,930,290	73.1%	\$ 123,868	\$ 8,604,241	\$ 202,181
FHLM	1,041,089	8.5%	-	1,041,089	-
FNMA	2,242,412	18.4%	-	2,242,412	-
Total	<u>\$ 12,213,791</u>	<u>100.0%</u>	<u>\$ 123,868</u>	<u>\$ 11,887,742</u>	<u>\$ 202,181</u>

*Custodial Credit Risk:* All investments shall be issued in the name of the Medical Trust per Ohio law.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from erosion of market value or change in market conditions, the Medical Trust's investment policy requires investments to mature no later than five years from the settlement date or on the date the invested funds are expected to be disbursed in satisfaction of an obligation of the Medical Trust, whichever is earlier.

*Credit Risk:* The Medical Trust's investment policy permits investment in all vehicles permitted by State Law. At June 30, 2006 the Medical Trust's investment in U.S. agencies (FHLB, FHLM and FNMA) were all rated AAA by Standard & Poor's.

*Concentration of Credit Risk:* While no specific limit is placed on any one issuer, the investment policy of the Medical Trust requires the portfolio to be diversified in order to minimize potential losses with respect to individual securities.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Notes to the Financial Statements

June 30, 2006

4. Reserve for Claims Payable:

As discussed in Note 2, the Medical Trust establishes a reserve for claims payable for its self-insured plan option which includes both reported but unprocessed claims and incurred but unreported reported claims. The changes in the reserve for claims payable for the last two fiscal years are as follows:

	June 30	
	2006	2005
Claims payable - beginning of year	\$ 7,842,367	\$ 3,350,000
Incurred claims and claim adjustments:		
Provision for insured events of the current year	74,762,192	60,060,292
Change in provision for insured events of prior year	-	-
Total incurred claims and claim adjustments	74,762,192	60,060,292
Payments:		
Claim payments attributable to claims of current year	69,280,266	52,371,848
Claim payments attributable to claims of prior years	6,151,183	3,196,077
Total payments	75,431,449	55,567,925
Claims payable - end of year	\$ 7,173,110	\$ 7,842,367
Amounts per Balance Sheet:		
Processed claims payable	\$ 640,110	\$ 878,577
Reserve for claims payable	6,533,000	6,963,790
Total claims payable - end of year	\$ 7,173,110	\$ 7,842,367

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
BENEFIT PLAN TRUST, MEDICAL INSURANCE AND BENEFIT PLAN**

Schedule of Claims Development

For the Years Ended June 30, 2006, 2005 and 2004 (A)

	<u>2006</u>	<u>2005 (B)</u>	<u>2004</u>
1. Required contribution and investment revenue:			
Earned (paid contributions)	83,349,248	65,351,461	30,693,023
Ceded (excess insurance)	<u>(1,199,970)</u>	<u>(1,015,865)</u>	<u>(595,619)</u>
Net earned	82,149,278	64,335,596	30,097,404
2. Unallocated expenses:	5,079,631	4,568,497	4,026,208
3. Estimated claims and expenses, end of fiscal year:			
Incurred	74,762,192	60,060,292	27,218,000
Ceded	<u>-</u>	<u>-</u>	<u>-</u>
Net Incurred	74,762,192	60,060,292	27,218,000
4. Net paid claims as of:			
End of fiscal year	69,280,266	52,371,848	24,397,409
One year later		6,151,183	3,196,077
5. Re-estimated net incurred claims and expense, as of:			
End of fiscal year	74,762,192	60,060,292	27,218,000
One year later		58,523,031	27,593,486
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year: (C)		-	-

Notes:

- (A) Table only includes last three years as information from prior years was not practically available. Information for additional years will continue to be added in future years.
- (B) In October 2004, the insurance purchasing pool option was changed to a risk sharing pool. This increased both premiums and claims for fiscal year 2005. Fiscal year 2006 is the first year that both plan options were risk sharing pools for the entire period.
- (C) Due to the nature of health claims, it is highly unlikely that any significant claim amount would remain unpaid at the end of the subsequent fiscal year. Therefore, there is no component included in the IBNR calculation for changes in prior years estimated claims and expenses.



**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS  
www.cshco.com

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*

Board of Trustees  
Southwestern Ohio Educational Purchasing Council  
- Medical Insurance and Benefit Plan  
303 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Medical Insurance and Benefit Plan (the Medical Trust) of the Southwestern Ohio Educational Purchasing Council, as of and for the year ended June 30, 2006 and have issued our report thereon dated July 31, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Trust's financial statements are free of 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*.

We noted certain matters that we reported to management of the Medical Trust in a separate letter dated July 31, 2007.

This report is intended solely for the information and use of the Board of Trustees, Board Committees, and the management of the Medical Trust and is not intended to be and should not be used by anyone other than these specified parties.

*Clark, Schufer, Hachett & Co.*

Springfield, Ohio  
July 31, 2007





**Mary Taylor, CPA**  
Auditor of State

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MEDICAL INSURANCE AND BENEFIT PLAN TRUST**

**MONTGOMERY 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  
OCTOBER 11, 2007**