
**Southwestern Ohio Educational Purchasing Council's
Self-Insured Medical Insurance Benefits Program**

Montgomery County, Ohio

Basic Financial Statements

June 30, 2009

(with Independent Auditors' Report)



Mary Taylor, CPA
Auditor of State

Southwestern Ohio Educational Purchasing Council
Self-Insured Medical Insurance Benefits program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have reviewed the *Independent Auditors' Report* of the Southwestern Ohio Educational Purchasing Council Self-Insured Medical Insurance Benefits program, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2008 through June 30, 2009. 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 Self-Insured Medical Insurance Benefits program is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 1, 2010

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INDEPENDENT AUDITORS' REPORT

Committee Members
Southwestern Ohio Educational Purchasing Council
- Self-Insured Medical Insurance Benefits Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Self-Insured Medical Insurance Benefits Program (the Program) of the Southwestern Ohio Educational Purchasing Council as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Program'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.

As discussed in Note 2, the financial statements present only the Self-Insured Medical Insurance Benefits Program and do not purport to, and do not, present fairly the financial position of the Southwestern Ohio Educational Purchasing Council as of June 30, 2009 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self-Insured Medical Insurance Benefits Program of the Southwestern Ohio Educational Purchasing Council as of June 30, 2009, 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 May 21, 2010, on our consideration of the Program'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.

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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
May 21, 2010

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Management's Discussion and Analysis
For the Year Ended June 30, 2009

The discussion and analysis of Southwestern Ohio Educational Purchasing Council's Self-Insured Medical Insurance Benefits Program, (the Program) financial performance provides an overall review of the financial activities for the year ended June 30, 2009. 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 Program:

In accordance with an agreement with the former Trustees of the Program, effective October 1, 2008 the Program became a function of the Southwestern Ohio Educational Purchasing Council (the Council), which 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. The financial activity of the Program is accounted for in a separate enterprise fund in the financial records of the Council.

Risk sharing pools, or self-insurance pools, pay claims submitted by covered employees from contributions collected and maintained by the Program, and therefore, the majority of the risk remains with the Program. For fiscal year 2009, 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 Program. To help minimize the risk exposure of the Program, stop-loss insurance is purchased. For plan year ending September 30, 2009, the stop-loss limits were set at \$400,000 and \$500,000 specific for Anthem and United HealthCare, respectively.

For fiscal year 2009, the Anthem option plan had 39 participating member school districts with approximately 4,850 covered employees and the United HealthCare plan option had 21 participating member school districts with approximately 4,700 covered employees.

Effective in November 2008, the Program established and offered a group life insurance plan option for member school districts. This plan offers life and accidental death and dismemberment coverage to employees of participating districts through fully insured policies with Sun Life Insurance Company. Coverage amounts are determined by the individual participating districts and all insurance contracts are between Sun Life Insurance Company and the districts. As of June 30, 2009 there were 30 participating districts in the program covering approximately 6,500 employees.

Basic Financial Statements and Presentation:

The financial statements presented by the Program are the Statement of Net Assets, 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 Program is structured as one enterprise fund.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Management's Discussion and Analysis
For the Year Ended June 30, 2009

The Statement of Net Assets:

The Statement of Net Assets presents information on all of the Program'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 Program's net assets for fiscal year 2009 compared with fiscal year 2008.

**TABLE 1
NET ASSETS**

	<u>2009</u>	<u>2008</u>
<u>Assets:</u>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 5,016,402	\$ 7,287,369
Receivables	-	22,139
<i>Total Current Assets</i>	<u>5,016,402</u>	<u>7,309,508</u>
<i>Noncurrent Assets:</i>		
Investments	<u>21,688,556</u>	<u>21,223,726</u>
Total Assets	<u>26,704,958</u>	<u>28,533,234</u>
<u>Liabilities:</u>		
<i>Current Liabilities:</i>		
Accounts Payable	30,436	-
Claims payable	8,794,401	8,705,304
Unearned participants contributions	<u>2,639,125</u>	<u>2,766,554</u>
Total Liabilities	<u>11,463,962</u>	<u>11,471,858</u>
<u>Net Assets:</u>		
Unrestricted	<u>15,240,996</u>	<u>17,061,376</u>
Total Net Assets	<u>\$ 15,240,996</u>	<u>\$ 17,061,376</u>

The balance of cash and cash equivalent reported at June 30, 2009 was \$2,270,967 less than the amount reported at June 30, 2008. This decrease in cash was due to the increase in claims paid during the fiscal year as well as management's decision to return a portion of unrestricted net assets through intentional reductions of premium rates for the policy year. The total returned to member districts during fiscal year 2009 associated with premium rate reductions was approximately \$1.0 million. Total amount of investments of the Program increased by \$464,830 from the amount reported one year prior, as dividends and interest earned during the year was reinvested.

Total claims payable reported at the end of fiscal year 2009 increased by \$89,097 over those reported one year prior. The reserve for claims payable is established annually with the assistance of an outside actuary based on statistical models. The reserve for claims payable liability reported at June 30, 2009 increased by \$315,000 over the liability reported for the previous year due to anticipated claim volume. This increase was somewhat offset by the decrease in the processed claims payables reported at year end which represent claims which have been processed and paid by the TPA but have not been presented for payment.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Management's Discussion and Analysis
For the Year Ended June 30, 2009

The Program's total net assets decreased by \$1.8 million during fiscal year 2009, resulting in unrestricted net assets at June 30, 2009 being \$15.2 million.

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 Program's net assets changed during the year. During 2009, the Program reported a decrease in net assets of \$1.8 million or 10.7 percent of the total net assets reported for June 30, 2008. This decrease resulted from claims and associated expenses being higher than those reported in the prior year. In addition, the decision by the Program to return approximately \$1.0 million of unrestricted net assets to members through lower premium rates during the fiscal year contributed to the reduction in net assets.

With the necessary reserve required, as determined by the actuary, included as a liability, the unrestricted net assets totaled \$15.2 million at year end or approximately 15.4 percent of the Program's operating expenses reported for fiscal year 2009. A decrease in net assets should not be associated with "underfunding" due to the fluctuation in claims experience from year to year. Establishing and maintaining appropriate reserves to address these fluctuations in claims is a necessity of all risk sharing insurance pools.

Table 2 shows the changes in net assets for the year ended June 30, 2009, as well as revenue and expense comparisons to fiscal year 2008.

**TABLE 2
CHANGES IN NET ASSETS**

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues:</u>		
Net medical contributions	\$ 95,086,374	\$ 90,443,571
Prescription rebates	1,106,996	994,918
Life insurance premium contributions	<u>153,537</u>	<u>-</u>
Total Operating Revenues	<u>96,346,907</u>	<u>91,438,489</u>
<u>Operating Expenses:</u>		
Net medical claims expense	93,399,864	86,422,271
Third party administrator expense	4,565,506	4,549,824
Enrollment administration	365,988	-
Life insurance policy premiums	154,181	-
Other expenses	<u>426,676</u>	<u>444,914</u>
Total Operating Expenses	<u>98,912,215</u>	<u>91,417,009</u>
Operating Loss	<u>(2,565,308)</u>	<u>21,480</u>
<u>Non-Operating Revenues:</u>		
Interest earnings	<u>744,928</u>	<u>1,175,627</u>
Change in Net Assets	(1,820,380)	1,197,107
Net Assets at Beginning of Year	<u>17,061,376</u>	<u>15,864,269</u>
Net Assets at End of Year	<u>\$ 15,240,996</u>	<u>\$ 17,061,376</u>

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Management's Discussion and Analysis
For the Year Ended June 30, 2009

While member contributions increased by 5.1 percent over those reported in the prior year, the return of unrestricted net assets by the Program intentionally limited revenue growth for the year. The Program continues to benefit from the prescription rebates, which increased 11.3 percent over the amount received during the prior year. The interest earnings reported for fiscal year 2009 was \$430,699 less than interest earned in the prior fiscal year. The decrease in earnings can be attributable to the lower rates currently being offered in the investment market. The premiums associated with the group life insurance option, which was first offered to member districts in November 2008, were offset by the corresponding life insurance policy premiums expense.

Total net claims expense reported for fiscal year 2009 increased by \$7.0 million, or 8.1 percent, over those reported for the prior fiscal year. As shown in table 2, approximately 94.4 percent of the Program's total expenses reported for fiscal year 2009 were directly related to the settlement of claims submitted by covered employees. Another 4.6 percent of the expenses were paid to the third party administrator of the self-insured plan to process and administer the submitted claims. The enrollment administration expense is the contractual payment to Benelogic, which is an online enrollment system for the plans implemented for policy year 2009. The reported increase in other expenses category is directly related to the implementation of a wellness program during the year.

The Statement of Cash Flows:

The Statement of Cash Flows allows the reader of the financial statements to assess the Program's adequacy or ability to generate sufficient cash flow to meet its obligations in a timely manner. During fiscal year 2009 the cash and cash equivalents of the Program decreased by approximately \$2.3 million compared to the amount reported at June 30, 2008. The operation (operating activities) of the self-insurance pool had \$2.6 million more in cash outflows, used to pay and administer claims, than it had premium contributions and other revenues. Higher claim payments and the return of unrestricted net assets to participating districts by Program resulted in net cash outflow from operating activities. The investing activities of the Program generated \$744,928 of interest earnings, which was lower than what was received in the prior year due to lower interest rates available on investments during fiscal year 2009.

Contacting the Administration of the Program:

This financial report is designed to provide member school districts and other users with a general overview of the Program'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, Benefits Administrator at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377 or by calling (937) 890-3725.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Statement of Net Assets

June 30, 2009

Assets

Current assets:

Cash and cash equivalents \$ 5,016,402

Total current assets 5,016,402

Noncurrent assets:

Investments 21,688,556

Total noncurrent assets 21,688,556

Total assets 26,704,958

Liabilities

Current liabilities:

Accounts payable 30,436

Matured outstanding claims payable 216,401

Reserve for claims payable 8,578,000

Unearned participant contributions 2,639,125

Total liabilities 11,463,962

Net assets

Unrestricted 15,240,996

Total net assets \$ 15,240,996

See accompanying notes to the financial statements.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2009

<u>Operating revenues:</u>	
Member Medical Contributions:	
Participant medical contributions	\$ 96,125,065
Excess insurance premiums	<u>(1,038,691)</u>
Net medical contributions	95,086,374
Prescription rebates	1,106,996
Life insurance premium contributions	<u>153,537</u>
Total operating revenues	<u>96,346,907</u>
 <u>Operating expenses:</u>	
<i>Medical Claims Expense:</i>	
Total medical claims incurred	93,940,399
Medical claims ceded to stop loss insurance	<u>(540,535)</u>
Net medical claims incurred	93,399,864
Third party administrator	4,565,506
Enrollment administration	365,988
Wellness programs	99,355
Life insurance policy premiums	154,181
Administrative and other	<u>327,321</u>
Total operating expenses	<u>98,912,215</u>
Operating loss	<u>(2,565,308)</u>
 <u>Non-operating revenues:</u>	
Interest earnings	<u>744,928</u>
Total non-operating revenues	<u>744,928</u>
Change in net assets	(1,820,380)
Net assets at beginning of year	<u>17,061,376</u>
Net assets at end of year	<u>\$ 15,240,996</u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Statement of Cash Flows
Year Ended June 30, 2009

<u>Cash flows from operating activities:</u>	
Cash received for premium contributions	\$ 96,020,687
Cash received for prescription rebates	1,106,996
Cash received for life insurance premiums	163,255
Cash payments for claim payments	(93,310,767)
Cash payments for excess insurance	(1,038,691)
Cash payments for claim administration	(4,565,506)
Cash payments for enrollment administration	(335,552)
Cash payments for wellness programs	(99,355)
Cash payments for life insurance policy premiums	(154,181)
Cash payments for administration and other expenses	<u>(337,951)</u>
Net cash used by operating activities	<u>(2,551,065)</u>
<u>Cash flows from investing activities:</u>	
Purchase of investments	(29,454,830)
Proceeds from sale of investments	28,990,000
Interest earnings	<u>744,928</u>
Net cash provided by investing activities	<u>280,098</u>
Net decrease in cash and cash equivalents	(2,270,967)
Cash and cash equivalents, beginning of year	<u>7,287,369</u>
Cash and cash equivalents, end of year	\$ <u><u>5,016,402</u></u>
<u>Reconciliation of operating loss to net cash used by operating activities</u>	
Operating loss	\$ (2,565,308)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in assets and liabilities:	
Decrease in premium receivables	22,139
Increase in accounts payable	30,436
Decrease in matured outstanding claims payable	(225,903)
Increase in reserve for claims payable	315,000
Decrease in unearned participant contributions	<u>(127,429)</u>
Total Adjustments	<u>14,243</u>
Net cash used by operating activities	\$ <u><u>(2,551,065)</u></u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Notes to the Financial Statements
June 30, 2009

1. Description of the Plan:

The Southwestern Ohio Educational Purchasing Council's Self-Insured Medical Insurance Benefits Program (the Program) is a risk sharing pool managed and operated by the Southwestern Ohio Purchasing Council (the Council). Effective October 1, 2008, the Program became a function of and operates under the control of the Council and is managed exclusively by its management. The Program is accounted for as a separate enterprise fund within the Council's accounting records. 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 Program is a function of the Southwestern Ohio Educational Purchasing Council which provides group medical benefits for the employees of participating employers through a risk sharing (self-insurance) pool under two separate plan options: one administered by the Community Insurance Company (dba Anthem) and the other administered by United HealthCare Insurance Company. Claims submitted by covered employees are processed by the third party administrators (TPA), currently United HealthCare and Anthem, in accordance with the benefits negotiated by the participating member school districts of the Program. Payments of these claims are settled by the contributions collected and maintained by the Program and, therefore, the majority of the claim risk remains with the Program.

The Program has purchased stop-loss insurance to help minimize its total risk exposure. During policy year 2009 stop-loss insurance limits were set at \$400,000 and \$500,000 specific claims expected for Anthem and United HealthCare, respectively. Each plan option has an effective policy year of October 1 through September 30 of the following calendar year.

As of June 30, 2009 the United HealthCare plan option had 21 participating member school districts with approximately 4,700 covered employees. The Anthem plan option had 39 participating member school districts with approximately 4,850 covered employees.

Benefits

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

In addition, effective November 2008, the Program established and offered a group life insurance plan option for member school districts. This plan offers life and accidental death and dismemberment coverage to employees of participating districts through fully insured policies with Sun Life Insurance Company. Coverage amounts are determined by the individual participating districts and all insurance contracts are between Sun Life Insurance

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM

Notes to the Financial Statements
June 30, 2009

Company and the districts. The Program collects and remits the flat rate, monthly policy premium to Sun Life Insurance Company for the participating districts. As of June 30, 2009 there were 30 participating districts in the program covering approximately 6,500 employees.

Contributions

Under the terms of the Program, participating member school districts make monthly premium payments to fund claims, claim processing expenses, stop-loss insurance premiums, administrative costs, as well as sufficiently fund adequate reserves.

Participating member 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 Program at the October 1st renewal date. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. It has been the practice of the Program 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 financial statements of the Program have been prepared in conformity with generally accepted accounting principles (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. The Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Program has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Program's accounting policies and practices are described below:

Basis of accounting:

The Program's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The financial activity of the Program is accounted for within a single enterprise fund by the Council during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise fund reporting focuses on the determination of the change in net asset, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Notes to the Financial Statements
June 30, 2009

Measurement focus:

The Program is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Program are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flow provides information about how the Program finances and meets the cash flow needs of its enterprise activity.

Basis of accounting:

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Program's financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are accounted for as earned and expenses as incurred.

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.

The investments of the Program 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 Program'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 Program 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.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM

Notes to the Financial Statements
June 30, 2009

Should the provisions for claims payable not be sufficient, the Program 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, 2009, the Program 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 Council, the Program may distribute all or part of the unrestricted net assets to participating school districts during years when surplus funds are reported.

In the event of the termination of the Program, net assets will be used to settle all claims and other obligations incurred by the Program, as well as establishing an appropriate reserve to settle any future claims. Any remaining net assets will be distributed based on the discretion of the Council.

Classification of revenue:

The Program 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 if determinable.

Tax status:

The Program 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.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Notes to the Financial Statements
June 30, 2009

ERISA:

Due to the Program 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 Program'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 Program's deposits may not be returned to it. Protection of the Program'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 Program's deposits was \$5,016,402 with the bank balance being the same amount. Of the bank balance, \$500,000 was covered by federal depository insurance and \$4,516,402 was subject to custodial credit risk as it was uninsured and collateralized with securities held by the pledging financial institution's agent, but not in the Program's name. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Program to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at fair value. As of June 30, 2009, the Program had the following investments:

Investment Type	Fair Value	Percent of Total Investments	Maturities (in Years)		
			Less than 1	1 to 3	4 to 5
FHLB	\$ 2,155,359	9.9%	-	2,002,500	152,859
FHLMC	6,991,750	32.2%	-	-	6,991,750
FFCB	2,002,500	9.2%	-	-	2,002,500
FNMA	1,999,380	9.2%	-	-	1,999,380
Money Market	8,539,567	39.4%	8,539,567	-	-
Total	<u>\$ 21,688,556</u>	<u>100.0%</u>	<u>\$ 8,539,567</u>	<u>\$ 2,002,500</u>	<u>\$ 11,146,489</u>

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM

Notes to the Financial Statements
 June 30, 2009

Custodial Credit Risk: All investments shall be issued in the name of the Program 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 Program'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 Program, whichever is earlier.

Credit Risk: The Program's investment policy permits investment in all vehicles permitted by State Law. At June 30, 2009 the Program's investment in U.S. agencies (FHLB, FHLMC, FFCB and FNMA) were all rated AAA by Standard & Poor's. In addition, the money market fund was rated AAAM by Standards & Poor's.

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

4. Reserve for Claims Payable:

As discussed in Note 2, the Program 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	
	2009	2008
Claims payable - beginning of year	\$ 8,705,304	\$ 8,011,646
Incurred claims and claim adjustments:		
Provision for insured events of the current year	93,401,971	86,422,271
Change in provision for insured events of prior year	-	-
Total incurred claims and claim adjustments	93,401,971	86,422,271
Payments:		
Claim payments attributable to claims of current year	84,825,860	79,225,716
Claim payments attributable to claims of prior years	8,487,014	6,502,897
Total payments	93,312,874	85,728,613
Claims payable - end of year	\$ 8,794,401	\$ 8,705,304
Amounts per Balance Sheet:		
Processed claims payable	\$ 216,401	\$ 442,304
Reserve for claims payable	8,578,000	8,263,000
Total claims payable - end of year	\$ 8,794,401	\$ 8,705,304

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF-INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

Schedule of Claims Development

For the Years Ended June 30, 2009, 2008, 2007, 2006, 2005 and 2004 (A)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005 (B)</u>	<u>2004</u>
1. Required medical contributions and other revenues:						
Medical Contributions:						
Earned (paid contributions)	\$ 96,125,065	\$ 91,703,512	\$ 92,123,706	\$ 83,349,248	\$ 65,351,461	\$ 30,693,023
Ceded (excess insurance)	<u>(1,038,691)</u>	<u>(1,259,941)</u>	<u>(1,211,262)</u>	<u>(1,199,970)</u>	<u>(1,015,865)</u>	<u>(595,619)</u>
Net medical contributions earned	95,086,374	90,443,571	90,912,444	82,149,278	64,335,596	30,097,404
Investment revenue	744,928	1,175,627	1,250,421	436,175	256,327	75,219
Prescription rebates	1,106,996	994,918	983,922	715,423	-	-
Life insurance premium contributions	<u>153,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total medical contributions and other revenues	97,091,835	92,614,116	93,146,787	83,300,876	64,591,923	30,172,623
2. Unallocated expenses:	5,368,800	4,994,738	5,440,915	5,079,631	4,568,497	4,026,208
3. Estimated claims and expenses, end of fiscal year:						
Incurred	93,940,399	86,851,233	79,436,643	74,762,192	60,060,292	27,218,000
Ceded	<u>(540,535)</u>	<u>(428,962)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Incurred	93,399,864	86,422,271	79,436,643	74,762,192	60,060,292	27,218,000
4. Net paid claims as of:						
End of fiscal year	84,825,860	79,225,716	73,170,994	69,280,266	52,371,848	24,397,409
One year later	8,487,014	8,487,014	6,502,897	5,427,113	6,151,183	3,196,077
5. Re-estimated net incurred claims and expense, as of:						
End of fiscal year	93,399,864	86,422,271	79,436,643	74,762,192	60,060,292	27,218,000
One year later	87,712,730	87,712,730	79,673,891	74,707,379	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 six 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.

**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
- Self-Insured Medical Insurance Benefits Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Self-Insured Medical Insurance Benefits Program (the Program) of the Southwestern Ohio Educational Purchasing Council, as of and for the year ended June 30, 2009 and have issued our report thereon dated May 21, 2010, wherein we noted the Program is an enterprise fund within the accounting records of the Southwestern Ohio Educational Purchasing Council. 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 Program's internal control over financial reporting as a basis for designing our auditing procedures 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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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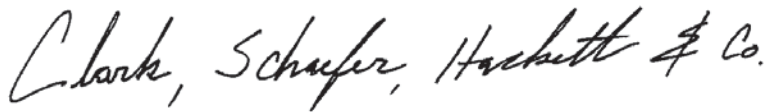
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program'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 Program in a separate letter dated May 21, 2010.

This report is intended solely for the information and use of the Committee Members, management of the Program, and the Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hachett & Co.".

Springfield, Ohio
May 21, 2010



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



Mary Taylor, CPA
Auditor of State

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
SELF INSURED MEDICAL INSURANCE BENEFITS PROGRAM**

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
JUNE 17, 2010**