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

Montgomery County, Ohio

Basic Financial Statements

June 30, 2010

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT

STRENGTH IN NUMBERS

Dave Yost • Auditor of State

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 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, 2009 through June 30, 2010. 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.

Dave Yost

Dave Yost
Auditor of State

February 7, 2011

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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, 2010, 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, 2010 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, 2010, and the respective 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 December 29, 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.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

cincinnati | columbus | dayton | middletown | springfield

The Management's Discussion and Analysis (pages 3 through 6) and the Schedule of Claims Development (page 17) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied 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, Hackett & Co.

Springfield, Ohio
December 29, 2010

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, 2010. 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.

<u>The Program:</u>

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 2010, 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, 2010, the stop-loss limits were set at $400,000 and $500,000 specific for Anthem and United HealthCare, respectively.

For fiscal year 2010, the Anthem option plan had 33 participating member school districts with approximately 4,707 covered employees and the United HealthCare plan option had 22 participating member school districts with approximately 4,807 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, 2010 there were 33 participating districts in the program covering approximately 8,574 employees.

<u>Basic Financial Statements and Presentation:</u>

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.

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 2010 compared with fiscal year 2009.

TABLE 1
NET ASSETS

	2010	2009
Assets:		
Current Assets:		
Cash and cash equivalents	$ 5,119,562	$ 5,016,402
Accrued interest	7,388	-
Total Current Assets	5,126,950	5,016,402
Noncurrent Assets:		
Investments	17,895,657	21,688,556
Total Assets	23,022,607	26,704,958
Liabilities:		
Current Liabilities:		
Accounts Payable	-	30,436
Claims payable	8,747,076	8,794,401
Unearned participants contributions	3,087,328	2,639,125
Total Liabilities	11,834,404	11,463,962
Net Assets:		
Unrestricted	11,188,203	15,240,996
Total Net Assets	$ 11,188,203	$ 15,240,996

The balance of cash and cash equivalent reported at June 30, 2010 was $103,160 more than the amount reported at June 30, 2009. This increase in cash was due to the decrease in claims paid during the fiscal year as well as management's decision to return a portion of unrestricted net assets through cash payments or refunds back to the districts in fiscal year 2010. The total returned to member districts during fiscal year 2010 was approximately $669,797. Total amount of investments of the Program decreased by $3,792,899 from the amount reported one year prior, due to the decrease in interest rates that have occurred over the past year.

Total claims payable reported at the end of fiscal year 2010 decreased by $47,325 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, 2010 decreased by $62,000 over the liability reported for the previous year due to anticipated claim volume.

The Program's total net assets decreased by $4.1 million during fiscal year 2010, resulting in unrestricted net assets at June 30, 2010 being $11.2 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 2010, the Program reported a decrease in net assets of $4.1 million or 26.6 percent of the total net assets reported for June 30, 2009. 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 $669,797 of unrestricted net assets to members through cash payments 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 $11.2 million at year end or approximately 10.5 percent of the Program's operating expenses reported for fiscal year 2010. A decrease in net assets should not be associated with "under-funding" 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, 2010, as well as revenue and expense comparisons to fiscal year 2009.

TABLE 2
CHANGES IN NET ASSETS

	2010	2009
Operating Revenues:		
Net medical contributions	$ 100,044,391	$ 95,086,374
Prescription rebates	1,254,847	1,106,996
Life insurance premium contributions	735,532	153,537
Miscellaneous revenue	9,432	-
Total Operating Revenues	102,044,202	96,346,907
Operating Expenses:		
Net medical claims expense	99,759,021	93,399,864
Third party adminstrator expense	4,675,696	4,565,506
Enrollment administration	364,148	365,988
Wellness Programs	665,325	99,355
Life insurance policy premiums	486,723	154,181
Other expenses	366,491	327,321
Total Operating Expenses	106,317,404	98,912,215
Operating Loss	(4,273,202)	(2,565,308)
Non-Operating Revenues:		
Interest earnings	220,409	744,928
Change in Net Assets	(4,052,793)	(1,820,380)
Net Assets at Beginning of Year	15,240,996	17,061,376
Net Assets at End of Year	$ 11,188,203	$ 15,240,996

While member contributions increased by 5.2 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 13.4 percent over the amount received during the prior year. The interest earnings reported for fiscal year 2010 was $524,519 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 2010 increased by $6.4 million, or 6.8 percent, over those reported for the prior fiscal year. As shown in table 2, approximately 93.8 percent of the Program's total expenses reported for fiscal year 2010 were directly related to the settlement of claims submitted by covered employees. Another 4.4 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 2010. The reported increase in other expenses category is directly related to the implementation of a wellness program during the year, including contracting with a vendor to manage the wellness program for all members.

<u>The Statement of Cash Flows:</u>

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 2010 the cash and cash equivalents of the Program decreased by approximately $103,160 compared to the amount reported at June 30, 2009. The operation (operating activities) of the self-insurance pool had $3.9 million more in cash outflows, used to pay and administer claims, than it had premium contributions and other revenues. Higher claim payments, the implementation of the wellness program 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 $231,104 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 2010.

<u>Contacting the Administration of the Program:</u>

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, 2010

Assets	
Current assets:	
Cash and cash equivalents	$ 5,119,562
Accrued interest	7,388
Total current assets	5,126,950
Noncurrent assets:	
Investments	17,895,657
Total noncurrent assets	17,895,657
Total assets	23,022,607
Liabilities	
Current liabilities:	
Matured outstanding claims payable	231,076
Reserve for claims payable	8,516,000
Unearned participant contributions	3,087,328
Total liabilities	11,834,404
Net assets	
Unrestricted	11,188,203
Total net assets	$ 11,188,203

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, 2010

Operating revenues:	
Member Medical Contributions:	
Participant medical contributions	$ 101,210,513
Excess insurance premiums	(1,166,122)
Net medical contributions	100,044,391
Prescription rebates	1,254,847
Life insurance premium contributions	735,532
Miscellaneous	9,432
Total operating revenues	102,044,202
Operating expenses:	
Medical Claims Expense:	
Total medical claims incurred	102,793,724
Medical claims ceded to stop loss insurance	(3,034,703)
Net medical claims incurred	99,759,021
Third party administrator	4,675,696
Enrollment adminstration	364,148
Wellness programs	665,325
Life insurance policy premiums	486,723
Administrative and other	366,491
Total operating expenses	106,317,404
Operating loss	(4,273,202)
Non-operating revenues:	
Interest earnings	220,409
Total non-operating revenues	220,409
Change in net assets	(4,052,793)
Net assets at beginning of year	15,240,996
Net assets at end of year	$ 11,188,203

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, 2010

Cash flows from operating activities:		
Cash received for premium contributions	$	102,322,286
Cash received for prescription rebates		1,254,847
Cash received for other purposes		9,432
Cash received for life insurance premiums		741,759
Cash payments for return of premiums		(669,797)
Cash payments for claim payments		(99,806,346)
Cash payments for excess insurance		(1,166,122)
Cash payments for claim administration		(4,675,696)
Cash payments for enrollment administration		(364,148)
Cash payments for wellness programs		(665,325)
Cash payments for life insurance policy premiums		(486,723)
Cash payments for administration and other expenses		(396,927)
Net cash used by operating activities		(3,902,760)
Cash flows from investing activities:		
Purchase of investments		(8,481,981)
Proceeds from sale of investments		12,274,880
Change in fair value of investment		(18,083)
Interest earnings		231,104
Net cash provided by investing activities		4,005,920
Net increase in cash and cash equivalents		103,160
Cash and cash equivalents, beginning of year		5,016,402
Cash and cash equivalents, end of year	$	5,119,562
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$	(4,273,202)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Changes in assets and liabilities:		
Decrease in accounts payable		(30,436)
Increase in matured outstanding claims payable		14,675
Decrease in reserve for claims payable		(62,000)
Increase in unearned participant contributions		448,203
Total Adjustments		370,442
Net cash used by operating activities	$	(3,902,760)

See accompanying notes to the basic financial statements.

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 2010 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, 2010 the United HealthCare plan option had 22 participating member school districts with approximately 4,807 covered employees. The Anthem plan option had 33 participating member school districts with approximately 4,707 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

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, 2010 there were 33 participating districts in the program covering approximately 8,574 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.

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.

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, 2010, 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.

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. The Council does not have a custodial risk policy. At year-end, the carrying amount of the Program's deposits was $5,119,562, with the bank balance being the same amount.

Per Section 330.15 of the Federal Deposit Insurance Corporation (FDIC) regulations, all time and savings deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. Savings deposits include NOW accounts, money market deposit accounts and other interest-bearing checking accounts.

At year-end, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling $7,340,316, including the Program's $5,119,562, of which $7,090,316 was subject to custodial credit risk as it was uninsured. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values equal to 105 percent or more of all public deposits to be secured by the collateral pool. Collateral is held by trustee including the Federal Reserve Bank and designated third parties of the financial institution. This pooled collateral covers the Council's uninsured and uncollateralized deposits.

Investments

Investments are reported at fair value. As of June 30, 2010, 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 Bonds	$ 3,512,030	19.6%	-	-	3,512,030
FNMA Bonds	2,394,676	13.4%	-	-	2,394,676
FNMA Notes	6,569,693	36.7%	-	-	6,569,693
Money Market	5,419,258	30.3%	5,419,258	-	-
Total	$ 17,895,657	100.0%	$ 5,419,258	$ -	$ 12,476,399

Custodial Credit Risk: All investments shall be issued in the name of the Council 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, 2010 the Program's investment in U.S. agencies (FHLB 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	
	2010	2009
Claims payable - beginning of year	$ 8,794,401	$ 8,705,304
Incurred claims and claim adjustments:		
Provision for insured events of the current year	99,523,301	93,401,971
Change in provision for insured events of prior year	-	-
Total incurred claims and claim adjustments	99,523,301	93,401,971
Payments:		
Claim payments attributable to claims of current year	91,762,961	84,825,860
Claim payments attributable to claims of prior years	7,807,665	8,487,014
Total payments	99,570,626	93,312,874
Claims payable - end of year	$ 8,747,076	$ 8,794,401
Amounts per Balance Sheet:		
Processed claims payable	$ 231,076	$ 216,401
Reserve for claims payable	8,516,000	8,578,000
Total claims payable - end of year	$ 8,747,076	$ 8,794,401

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

Schedule of Claims Development

For the Years Ended June 30, 2010, 2009, 2008, 2007, 2006, 2005 and 2004 (A)

	2010	2009	2008	2007	2006	2005 (B)	2004
1. Required medical contributions and other revenues:							
Medical Contributions:							
Earned (paid contributions)	$101,210,513	$ 96,125,065	$ 91,703,512	$ 92,123,706	$ 83,349,248	$ 65,351,461	$ 30,693,023
Ceded (excess insurance)	(1,166,122)	(1,038,691)	(1,259,941)	(1,211,262)	(1,199,970)	(1,015,865)	(595,619)
Net medical contributions earned	100,044,391	95,086,374	90,443,571	90,912,444	82,149,278	64,335,596	30,097,404
Prescription rebates	1,254,847	1,106,996	994,918	983,922	715,423	-	-
Investment revenue and other revenues	229,841	744,928	1,175,627	1,250,421	436,175	256,327	75,219
Total medical contributions and other revenues	101,529,079	96,938,298	92,614,116	93,146,787	83,300,876	64,591,923	30,172,623
2. Unallocated expenses:	6,071,660	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	102,793,724	93,940,399	86,851,233	79,436,643	74,762,192	60,060,292	27,218,000
Ceded	(3,034,703)	(540,535)	(428,962)	-	-	-	-
Net Incurred	99,759,021	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	91,762,961	84,825,860	79,225,716	73,170,994	69,280,266	52,371,848	24,397,409
One year later		7,807,665	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	99,759,021	93,399,864	86,422,271	79,436,643	74,762,192	60,060,292	27,218,000
One year later		92,633,525	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 seven 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, 2010 and have issued our report thereon dated December 29, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of audit findings as item 2010-001. 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.

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*.

The Program's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit the Program's response and, accordingly, we express no opinion on it.

We noted a certain matter that we reported to management of the Program in a separate letter dated December 29, 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 29, 2010

Finding Number 2010-001

The Program is a function of the Southwestern Ohio Educational Purchasing Council (SOEPC) and as such is accounted for as an enterprise fund within SOEPC's accounting system. The cash and investments of the Program are currently being maintained in separate bank and investment accounts from those of the other SOEPC functions. However, checks for Program expenses are written from SOEPC's general checking accounts and subsequent transfers from the Program's checking account to the general checking account to cover expenditures for which the checks are written. SOEPC performs a monthly cash reconciliation process which reconciles the combined cash balance of its fund to those reported in the month end bank and investment statements.

At June 30, 2010, the SOEPC was able to reconcile the combined cash balance of its funds as reported by its accounting system to the reported bank and investment at that date. However, the ending cash balance of the Program's fund could not be reconciled to the separate bank and investment accounts maintained for the Program. This indicates SOEPC is not properly transferring funds from the Program account to the general account when checks are written for Program expenses.

If SOEPC determines it is best to maintain separate checking accounts for different functions, each individual fund should be reconciled directly to its cash and investments statements monthly to ensure the integrity of the separate cash and investment accounts. Another manner to address this issue would be to consolidate all checking accounts into the general checking account and maintain the cash balance through the accounting system.

> *<u>Management Response:</u> The Council has been made aware of the situation noted above and will take the applicable steps to ensure the integrity of the individual bank and investment accounts associated with its programs.*

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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

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL-MEDICAL

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
FEBRUARY 17, 2011

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.auditor.state.oh.us