

Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
Montgomery County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Executive Board
Southwestern Ohio Educational Purchasing
Council's Self-Insured Dental and Vision Plan Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have reviewed the *Independent Auditor's Report* of the Southwestern Ohio Educational Purchasing Council's Self-Insured Dental and Vision Plan Program, Montgomery County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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's Self-Insured Dental and Vision Plan Program is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 6, 2016

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**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
 SELF-INSURED DENTAL AND VISION PLAN PROGRAM
 MONTGOMERY COUNTY, OHIO**

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September 29, 2016

To the Executive Board
Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Self-Insured Dental and Vision Plan Program (the "Program") of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self-Insured Dental and Vision Plan Program of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of June 30, 2016, and the changes in financial position and, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of Self-Insured Dental and Vision Plan Program are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the enterprise funds of the Southwestern Ohio Educational Purchasing Council that is attributable to the transactions of the Self-Insured Dental and Vision Plan Program. They do not purport to, and do not, present fairly the financial position of the Southwestern Ohio Educational Purchasing Council as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 and the schedule of claims development on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
Independent Auditor's Report

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 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 compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Program's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Lima, Ohio

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**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2016

The discussion and analysis of Southwestern Ohio Educational Purchasing Council's Self-Insured Dental and Vision Plan Program, (the Program) financial performance provides an overall review of the financial activities for the year ended June 30, 2016. 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:

The Program is 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.

The risk sharing pool, or self-insurance pool, pays the dental and vision claims submitted by covered individuals from contributions collected and maintained by the Program, and therefore, the risk remains with the Program. Claims for both types of insurance coverage are processed by a third party administrator (TPA), currently Delta Dental for dental coverage and Vision Service Plan for vision coverage, in accordance with benefits established by the member districts of the Program. Due to the relatively low individual benefits offered and the size of the pool, the Program does not have stop-loss insurance for either type of coverage. The renewal date for the dental and vision coverage is October 1 of each year.

As of June 30, 2016, the dental coverage had 56 participating school districts with approximately 10,000 covered employees while the vision coverage had 40 participating school districts with approximately 5,700 covered employees. Individual benefits offered to employees are determined by each of the participating school districts, most through collective bargaining processes with employee groups.

Basic Financial Statements and Presentation:

The financial statements presented by the Program are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 with one enterprise fund.

Statement of Net Position:

The Statement of Net Position presents information on all of the Program's assets, liabilities as well as the ending net position. Assets consist mainly of cash and cash equivalents and investments. Liabilities consist mainly of reserves for claims payable and unearned participant contributions.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Table 1 provides a summary of the Program's net position for 2016 compared with 2015.

**TABLE 1
NET POSITION**

	2016	2015
<u>Assets:</u>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 1,435,626	\$ 682,631
<i>Non-Current Assets:</i>		
Investments	950,049	950,052
Total Assets	2,385,675	1,632,683
 <u>Liabilities:</u>		
<i>Current Liabilities:</i>		
Reserve for claims payable	632,000	501,000
Unearned member premiums	501,902	359,570
Total Liabilities	1,133,902	860,570
 <u>Net Position:</u>		
Unrestricted	\$ 1,251,773	\$ 772,113

The cash and cash equivalents balance reported at June 30, 2016 was \$752,995 higher than the amount reported one year prior, as operating revenues exceeded expenses during the year. In total, assets reported at year end were \$752,992 higher than those reported one year before, an increase of 46 percent.

Liabilities associated with claims payable represent 56 percent of the Program's total liabilities reported at June 30, 2016. Reserve for claims payable are liabilities carried for net unpaid claims, both reported and incurred but unreported existing at the end of the fiscal year. The reserve for claims payable is established annually by an outside actuary based on statistical models. The reserve for claims payable amount reported at June 30, 2016 increased by \$131,000 over the liability reported for the previous year. The increase factors in the number of employees covered by the Program as well as the historical utilization payment patterns experienced by the Program during the prior year.

The increase in the unearned participants contributions at June 30, 2016 compared with those at June 30, 2015 is simply a timing issue associated with the premium billings sent to participating school district and when the participating districts submitted payment for their July 2016 coverage. All unearned participant contributions were for July 2016 coverage and were recognized as revenue in that month.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Statement of Revenues, Expenses and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the Program's net position changed during the fiscal year. During fiscal year 2016, the Program reported an increase in net position of \$479,660 or 62 percent of the total net position reported at June 30, 2015. As determined by the actuary, the unrestricted net position totaled \$1,251,773 at year end or approximately 13 percent of Program's operating expenses reported for fiscal year 2016. An increase in net position should not be associated with "over-funding" as it is not unusual for a year with a low claims experience to be followed with years of higher claims. Establishing reserves is a necessity of all risk sharing insurance pools to address these fluctuations in claims.

Table 2 shows the changes in net position for the year ended June 30, 2016, as well as revenue and expense comparisons to fiscal year 2015.

**TABLE 2
CHANGES IN NET POSITION**

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues:</u>		
Participant premiums	\$ 10,280,742	\$ 8,273,693
<u>Operating Expenses:</u>		
Claims expense	9,131,096	7,593,609
Third party administrator expense	593,754	505,883
COBRA expense	70,407	70,121
Administrative and other expenses	5,976	3,874
Total Operating Expenses	<u>9,801,233</u>	<u>8,173,487</u>
Operating Income/(Loss)	<u>479,509</u>	<u>100,206</u>
<u>Non-Operating Revenues (Expenses):</u>		
Investment earnings (loss)	<u>151</u>	<u>181</u>
Change in Net Position	479,660	100,387
Net Position at Beginning of Year	<u>772,113</u>	<u>671,726</u>
Net Position at End of Year	<u>\$ 1,251,773</u>	<u>\$ 772,113</u>

The \$2,007,049 increase in participant contributions from those reported in the prior year can be attributed to the increase in number of employees paying contributions under the dental and vision coverages for the current year. Dental and vision coverage premium rates did not change over those of the prior plan year. Participant contributions associated with dental coverage account for approximately 90 percent of the total participant contribution while vision and dental coverage accounts for the remaining 10 percent.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2016

As shown in table 2, approximately 93 percent of the \$9.8 million in expenses reported by the Program for fiscal year 2016 were directly related to the settlement of claims. In addition, another 6 percent of the expenses were paid to the third party administrators of the self-insured plans to process and administer the submitted claims. The increase in claims expense and third party administrator expense can be attributed mainly to the increase in covered employees.

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 Doug Merkle, Benefits Administrator at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377 or by calling (937) 890-3725.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Statement of Net Position

Proprietary Fund

June 30, 2016

Assets:

Current assets:

Cash and cash equivalents	\$ 1,435,626
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Non-current assets:

Investments	950,049
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Total assets	<u>2,385,675</u>
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Liabilities:

Current liabilities:

Reserve for claims payable	632,000
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Unearned member premiums	501,902
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Total liabilities	<u>1,133,902</u>
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Net position:

Unrestricted	<u>\$ 1,251,773</u>
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See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Fund

Year Ended June 30, 2016

<u>Operating revenues:</u>	
Participant premiums	<u>\$ 10,280,742</u>
<u>Operating expenses:</u>	
Claims expense	9,131,096
Third party administrator	593,754
COBRA expense	70,407
Administrative and other expenses	5,979
Total operating expenses	<u>9,801,236</u>
Operating income	479,506
<u>Non-operating revenues:</u>	
Interest earnings	<u>154</u>
Change in net position	479,660
Net position at beginning of year	<u>772,113</u>
Net position at end of year	<u><u>\$ 1,251,773</u></u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2016

Cash flows from operating activities:

Cash received for premium contributions	\$ 10,423,074
Cash payments for claim payments	(9,000,096)
Cash payments for claim administration	(593,754)
Cash payments for other operating expenses	(76,386)
Net cash provided by (used for) operating activities	<u>752,838</u>

Cash flows from investing activities:

Interest earnings	<u>157</u>
Net increase (decrease) in cash and cash equivalents	752,995
Cash and cash equivalents, beginning of year	<u>682,631</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,435,626</u></u>

**Reconciliation of operating income (loss) to net cash provided
by (used for) operating activities**

Operating income (loss)	\$ 479,506
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</i>	
Increase/(Decrease) in Liabilities:	
Increase in reserve for claims payable	131,000
Increase in unearned participant contributions	142,332
Net cash provided by (used for) operating activities	<u><u>\$ 752,838</u></u>

See accompanying notes to the basic financial statements.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

1. Description of the Program:

The Southwestern Ohio Educational Purchasing Council's Self-Insured Dental and Vision Plan Program (the Program) is a risk sharing pool managed and operated by the Southwestern Ohio Purchasing Council (the Council). 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 dental and vision insurance coverage for employees of participating employers through a risk sharing (self-insurance) pool. Individual benefit coverage limits are set by negotiations between the Program and the participating school districts. With the relatively low individual benefit levels, the Program does not have stop-loss insurance coverage for its dental or vision plans. Through separate plans, the Program also provides medical insurance coverage options to participating school districts. The financial activity of the medical insurance plan is covered by a separate annual report.

The dental and vision risk sharing pool, or self-insurance pool, pays the dental and vision claims submitted by covered employees from contributions collected and maintained by the Program, and therefore, the risk remains with the Program. Claims for both types of insurance coverage are processed by a third party administrator (TPA), currently Delta Dental for dental coverage and Vision Service Plan for vision coverage, in accordance with benefits established by the Program.

As of June 30, 2016, the dental coverage was offered by 56 participating member school districts covering approximately 10,000 eligible employees and their dependents. Vision coverage was offered by 40 participating member school districts with approximately 5,700 covered employees.

Benefits

The Program establishes and maintains the fund to provide dental and vision benefits to employees of participating districts, their dependents and designated beneficiaries and to set aside funds for such purposes. Benefit levels offered are set by negotiations between the Program and the participating member district and may vary from entity to entity.

Contributions

Under the terms of the Program, participating member school districts make monthly premium payments to fund claims, administrative costs, as well as sufficiently fund adequate reserves.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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 at the renewal date for each plan, which is October 1 for both plans. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. Every other year school districts are reassessed individually to ensure contributions are in line with average claim costs encountered over the previous two years. Historically, in the off year, all participating school districts have received 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 more significant of the Program's accounting policies and practices are described below:

Basis of presentation:

The Program's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, 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 position, financial net 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 position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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:

All investments are stated at fair value. Realized gains and losses are determined on the identified cost basis. Unrealized gains/(losses) are included in interest earnings.

The Council's investment policy authorizes the Program to invest in any investment meeting the requirements of the Ohio Revised Code. Permitted investments include 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 position to cover the excess of claims. If necessary, future member contributions will be adjusted as part of the rate renewal process to ensure adequate reserve coverage is maintained.

Unearned participant contributions:

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

Net Position:

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

Net investment in capital assets – 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.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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

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

As of June 30, 2016, the Program does not have any net position meeting the definition of “net investment in capital assets” or “restricted” net position. As deemed appropriate by the Council, the Program may distribute all or part of the unrestricted net position to participating school districts during years when surplus funds are reported.

In the event of the termination of the Program, net position 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 position 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 are recognized on the accrual basis and are recorded as revenue in the period earned.

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 Program 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.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

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 and the bank balance was \$1,435,626.

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. Time and savings deposits' includes NOW accounts and money market deposit accounts but does not include interest-bearing demand deposit accounts.

At year-end, the Southwestern Ohio Educational Purchasing Council (the Council) had bank deposits totaling \$47,547,848 including the Program's \$1,435,626. Of the Council's bank deposits, Federal Deposit Insurance Corporation (FDIC) covered \$250,000. 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 but not in the name of the Council. This pooled collateral collateralizes the Council's uninsured bank deposits of \$47,297,848.

Investments

Investments are reported at fair value. As of June 30, 2016, the Program had 100% of their investments in a money market with a fair value totaling \$950,049.

The Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above table identifies the Council's recurring fair value measurements as of June 30, 2016. All other investments of the Council are valued using quoted market prices (Level 1 inputs).

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 Council'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 Council's investment policy permits investment in all vehicles permitted by State Law. At June 30, 2016 the Program's money market fund was rated AAAM by Standard & Poor's.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Concentration of Credit Risk: While no specific limit is placed on any one issuer, the investment policy of the Council 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 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	
	2016	2015
Claims payable - beginning of year	\$ 501,000	\$ 446,000
Incurred claims and claim adjustments:		
Provision for insured events of the current year	9,256,780	7,593,609
Change in provision for insured events of prior year	(125,684)	0
Total incurred claims and claim adjustments	9,131,096	7,593,609
Payments:		
Claim payments attributable to claims of current year	9,125,780	7,273,593
Claim payments attributable to claims of prior years	(125,684)	265,016
Total payments	9,000,096	7,538,609
Claims payable - end of year	\$ 632,000	\$ 501,000

5. Changes in Accounting Principles:

For the fiscal year ended June 30, 2016, the Program has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Program's fiscal year 2016 notes disclosures, however, there was no effect on the financial statements of the Program.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Program.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Program.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Program.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S
SELF-INSURED DENTAL AND VISION PLAN PROGRAM**

Montgomery County, Ohio

Schedule of Claims Development

Last Ten Fiscal Years Ending on June 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. Required contribution and investment revenue:										
Contributions:										
Earned (paid contributions)	\$10,280,742	\$ 8,273,693	7,720,291	\$ 7,343,646	\$ 7,158,318	\$ 7,077,693	\$ 6,675,194	\$ 6,502,606	\$ 6,596,879	\$ 7,090,109
Ceded (excess insurance) (A)	0	0	0	0	0	0	0	0	0	0
Net earned	10,280,742	8,273,693	7,720,291	7,343,646	7,158,318	7,077,693	6,675,194	6,502,606	6,596,879	7,090,109
Investment revenue	151	181	189	104	296	99	7,062	25,786	73,316	94,526
Total contribution and investment revenue	10,280,893	8,273,874	7,720,480	7,343,750	7,158,614	7,077,792	6,682,256	6,528,392	6,670,195	7,184,635
2. Unallocated expenses:	670,137	579,878	561,313	525,293	499,087	476,358	428,747	375,625	368,384	440,430
3. Estimated claims and expenses, end of fiscal year:										
Incurred	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324	6,196,919	6,635,066
Ceded (A)	0	0	0	0	0	0	0	0	0	0
Net Incurred	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324	6,196,919	6,635,066
4. Net paid claims as of:										
End of fiscal year	9,125,780	7,273,593	6,726,616	6,621,117	6,448,311	6,681,405	5,938,084	5,817,920	5,665,130	6,201,225
One year later	0	(125,684)	265,016	257,472	273,472	334,973	297,001	395,333	384,171	499,962
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324	6,196,919	6,635,066
One year later	0	7,467,925	6,991,632	6,878,589	6,721,783	7,016,378	6,235,085	6,213,253	6,049,301	6,701,187
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year: (B)	0	(125,684)	0	0	0	0	0	0	0	0

Note:

(A) Excess insurance is not purchased by the Program due to the level of benefits offered and the total maximum risk the plan is subjected to.

(B) Due to the nature of the 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.

September 29, 2016

To the Executive Board
Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Self-Insured Dental and Vision Plan Program (the "Program") of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 29, 2016, wherein we noted the basic financial statements of the Program present only a portion of the enterprise funds of the Southwestern Ohio Educational Purchasing Council.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Southwestern Ohio Educational Purchasing Council's
Self-Insured Dental and Vision Plan Program
Independent Auditor's Report On Internal Control Over Financial
Reporting And On Compliance And Other Matters
Based On The Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*
Page 2 of 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Lima, Ohio



Dave Yost • Auditor of State

**SWOEPC – BENEFIT PLAN TRUST SELF INSURED DENTAL AND VISION PLAN
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
DECEMBER 20, 2016**