

Southwestern Ohio Educational
Purchasing Council
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
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have reviewed the *Independent Auditor's Report* of the Southwestern Ohio Educational Purchasing Council, 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 is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 6, 2017

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Southwestern Ohio Educational Purchasing Council

Montgomery County, Ohio

Table of Contents

June 30, 2016

	<i>Page</i>
Independent Auditor’s Report.....	1
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balance – Governmental Fund Type.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balance – Proprietary and Fiduciary Fund Types.....	4
Notes to the Financial Statements	5
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14

November 22, 2016

To the Executive Board
Southwestern Ohio Educational Purchasing Council
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 and related notes of the Southwestern Ohio Educational Purchasing Council (the "Council"), Montgomery County, Ohio, as of and for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Council prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Council does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Southwestern Ohio Educational Purchasing Council, Montgomery, Ohio, as of June 30, 2016, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the Council'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 report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Council's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Lima, Ohio

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balance - Governmental Fund Type
For the Fiscal Year Ended June 30, 2016

	General Fund
Cash Receipts:	
Membership Fees	\$ 141,121
Charges for Services	1,105,899
Interest Earnings	56,339
Member Events	70,785
Miscellaneous Receipts	1,250
Total Cash Receipts	1,375,394
Cash Disbursements:	
Current:	
General Government	1,075,885
Capital Outlay	80,121
Total Cash Disbursements	1,156,006
Net Change in Fund Cash Balances	219,388
Fund Cash Balances, July 1	1,336,830
Fund Cash Balances, June 30	
Assigned for Future Obligations	734
Restricted - Program rebates owed to members	573,824
Unassigned	981,660
Fund Cash Balances, June 30	\$ 1,556,218

See accompanying notes to the basic financial statements.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
*Combined Statement of Cash Receipts, Cash Disbursements,
And Changes in Fund Balance - Proprietary and Fiduciary Fund Types
For The Fiscal Year Ended June 30, 2016*

	<u>Enterprise Funds</u>	<u>Agency Fund</u>	<u>Totals (Memorandum Only)</u>
Operating Cash Receipts:			
Insurance Premiums from Members:			
Liability, Fleet and Property	\$ 3,878,397	\$ 0	\$ 3,878,397
Health Benefits	194,497,662	0	194,497,662
Life Insurance	762,421	0	762,421
Prescription Rebate	4,610,840	0	4,610,840
Reimbursement of Claims	1,258,833	0	1,258,833
Miscellaneous	25,380	0	25,380
Other Operating Receipts	0	721,712	721,712
Total Operating Cash Receipts	<u>205,033,533</u>	<u>721,712</u>	<u>205,755,245</u>
Operating Cash Disbursements:			
Natural Gas Contractual Payments	6,363	0	6,363
Payment of Claims:			
Liability, Fleet and Property	1,532,337	0	1,532,337
Health Benefits	173,708,402	0	173,708,402
Insurance Premiums:			
Excess/Stop Loss Insurance	3,312,582	0	3,312,582
Life Insurance	700,620	0	700,620
Third Party Administrators	9,613,433	0	9,613,433
Wellness Programs	1,616,348	0	1,616,348
Program Administration	1,468,930	0	1,468,930
Other Contractual Services	1,086,559	0	1,086,559
Other Operating Disbursements	0	748,894	748,894
Total Operating Cash Disbursements	<u>193,045,574</u>	<u>748,894</u>	<u>193,794,468</u>
Operating Income/(Loss)	11,987,959	(27,182)	11,960,777
Non-Operating Cash Receipts:			
Interest Earnings	<u>187,210</u>	<u>0</u>	<u>187,210</u>
Income (loss) before special item	<u>12,175,169</u>	<u>(27,182)</u>	<u>12,147,987</u>
Special Item - transfer of resources	<u>0</u>	<u>226,681</u>	<u>226,681</u>
Net Change in Fund Cash Balances	12,175,169	199,499	12,374,668
Fund Cash Balances, July 1	<u>53,009,013</u>	<u>0</u>	<u>53,009,013</u>
Fund Cash Balances, June 30	<u>\$ 65,184,182</u>	<u>\$ 199,499</u>	<u>\$ 65,383,681</u>

See accompanying notes to the basic financial statements.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of the Entity

The Southwestern Ohio Educational Purchasing Council, Montgomery County (the Council), is a not-for-profit regional council of governments established under Chapter 167 of the Ohio Revised Code. The Council is directed by a member-elected eleven member Executive Board. The Council provides joint purchasing and other educational services for 100 school districts in southwest Ohio by the cooperative action of the membership.

Component units are legally separate organizations for which the Council is financially accountable. The Council is financially accountable for an organization if the Council appoints a voting majority of the organization's governing board and (1) the Council is able to significantly influence the programs or services performed or provided by the organization; or (2) the Council is legally entitled to or can otherwise access the organization's resources; the Council is legally obligated or has assumed responsibility to finance the deficits of, or provide financial support to, the organization; or the Council is obligated for the debt of the organization. Component units may also include organizations for which the Council approves the budget, the levying of taxes or the issuance of debt. The Council does not have any component units.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Council's accounting basis includes investments as assets which are reported on the accompanying statements as a component of cash balance of the respective funds. This basis does not report disbursements for investment purchases or receipts for investment sales. The Council reports gains or losses at the time of sale as receipts or disbursements, respectively.

During fiscal year 2016, the Council's investments were limited to securities issued by Federal Agencies and a Money Market Fund. All securities are valued at cost.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

D. Fund Accounting

The Council uses fund accounting to segregate cash and investments that are restricted as to use. The Council classifies its funds into the following types:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Enterprise Funds – These funds account for the financing of goods and services provided by the Council to member school districts with the intent of recovering the cost of the goods or services through the fees charged to the participating member districts. The following are the significant enterprise funds of the Council:

Liability, Fleet, and Property Insurance Fund – This fund accounts for the activity of the insurance pool (risk pool) offered by the Council. Premium rates are set by the Council and remitted on an annual basis by participating districts. The Council has contracted with Arthur J. Gallagher Inc. to provide marketing, excess insurance placement, and support services for the Plan. See Note 4 for additional information on the Liability, Fleet, and Property insurance pool.

Self Help Gas Fund – This fund receives monies for utility services to the participating districts. Previously this fund was used to collect monthly payments from participating districts and then remitting those payments in whole to the energy provider. When the program changed energy providers in 2013, monthly invoices started going directly to the participating districts for payment. The funds remaining are used by the Council to pay the legal costs of operating the energy program.

Medical Benefits Insurance Benefits Fund - This fund accounts for the activity of the medical benefits pools (risk pool) administered by the Council. Premium rates are established by the Council based on the recommendation of the third party administrators (TPA) and are remitted on a monthly basis by participating districts. Medical benefits are offered through two different plan options; Anthem and United HealthCare. Claims are submitted under each option are processed by the respective insurance companies, who are the TPAs, in accordance with benefits established by the participating districts. Effective November 2008, life insurance coverage was added to the benefits provided through the Medical Benefits Program. Life and accidental death and dismemberment coverage is provided 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. See Note 5 for additional information on the Medical Benefits Program.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Dental and Vision Insurance Benefits Fund – This fund accounts for the activity of the dental and vision benefits pools (risk pools) administered by the Council. Premium rates are established by the Council based on the recommendation of the third party administrators (TPA) and are remitted on a monthly basis by participating districts. Claims are processed by the 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. See Note 6 for additional information on the Dental and Vision Benefits Program.

Agency Funds – These funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Council disburses these funds as directed by the individual, organization or other governments. The Council had the following significant fund:

Association of Educational Purchasing Agencies (AEPA) – State purchasing coops receive and disburse funds for expenses and annual disbursement to six coops.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Council is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action by the Council's governing board. Those committed amounts cannot be used for any other purpose unless the governing board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Council for specific purposes but do not meet the criteria to be classified as restricted or committed. The assigned amount in the general fund represents intended uses established by the Council's governing board.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

The Council reported no fund balance within the nonspendable or committed categories for fiscal year 2016. The Council applies assigned resources first when expenditures are incurred for purposes for which either assigned or unassigned amounts are available.

F. Budgetary Process

The Council is not required by law to adopt an annual budget.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to receive cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

I. Special Item

Fiscal year 2016 was the first year the Council served as the fiscal agent for the AEPA. The special item represents the transfer of resources from the previous fiscal agent.

J. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the Council has (to the extent it applies to the cash basis of accounting) 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. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Council.

GASB Statement No. 73 establishes requirements for the 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 Council.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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 Council.

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 of the financial statements of the Council.

NOTE 2 – POOLED CASH AND INVESTMENTS:

The Council maintains a cash and investment pool used by all funds. The Constitution and By-Laws prescribe allowable deposits and investments. Information regarding the Council’s deposits and investments at June 30, 2016 was as follows:

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Council’s deposits may not be returned to it. Protection of the Council’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC) 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 June 30, 2016, FDIC insurance covered \$250,000 of the Council’s bank deposits and pooled collateral covered \$47,297,848 at the end of fiscal year 2016.

Investments

As noted previously, investments are carried at cost by the Council. At June 30, 2016 the fair market values for the investments were not significantly different from the carrying amount. The following is a summary of the Council’s investments as of June 30, 2016:

Investment Type	Cost	Percent of Total Investments	Maturities (in Years)		
			Less than 1 Year	1 - 3 Years	Greater Than 3 Years
Federal Home Loan Bank	\$ 6,601,700	33.0%	\$ 1,252,275	\$ 4,349,612	\$ 999,813
Federal National Mortgage Association	7,250,018	36.3%	1,000,193	4,249,825	2,000,000
Federal Home Loan Mortgage Corporation	1,000,000	5.0%	0	0	1,000,000
Federal Farm Credit Bank	2,800,583	14.0%	250,583	0	2,550,000
Money Market-Governmental Portfolio	2,337,804	11.7%	2,337,804	0	0
Total	\$ 19,990,105	100.0%	\$ 4,840,855	\$ 8,599,437	\$ 6,549,813

Custodial Credit Risk: All investments shall be issued in the name of the Council per Ohio Law, which is the same as the policy of the Council.

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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 Council, whichever is earlier.

Credit Risk: The Council's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal year 2016 the Council's investments in Federal Agency Securities were all rated AA+ and the Money Market Fund was rated AAAM by Standard and Poor's.

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.

NOTE 3 – RETIREMENT SYSTEM:

The Council's full-time employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal years 2016, members of SERS contributed 10 percent of their gross salaries. The Council provided an amount equal to 14 percent of participants' gross salaries. However, as an employee benefit, the Council contributed the employees' required contribution of 10 percent in both fiscal years on a "pick-up on pick-up basis". This additional benefit resulted in the payment of 11 percent for employee share and 15.26 percent for the employer share for each year. The Council has paid all contributions required through June 30, 2015.

NOTE 4 – LIABILITY, PROPERTY, AND FLEET INSURANCE POOL:

In July 2003, the Council established the Liability, Fleet, and Property Insurance Program (the LFP Program) as authorized by Section 2744.081 of the Ohio Revised Code to provide property, general liability, school leader's errors and omissions, automobile, excess liability, crime, surety and bond, inland marine and other coverage to participating members. The LFP Program has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the coverage provided in excess of the member's deductible. There were 59 entities participating in the LFP Program in fiscal year 2016.

The LFP Program has chosen to adopt the forms and endorsements of conventional insurance coverage and to purchase specific and aggregate stop loss insurance in excess of a given retention to pay individual and collective losses. Therefore, the individual members are only responsible for their self-insured retention (deductible) amounts that may vary from member to member.

The LFP Program retained the first \$150,000 of each loss for general liability, automobile, crime and surety and property claims for fiscal year 2016 which is the same self-retained risk limit established for the prior year. Each member has a maintenance deductible of \$5,000 for property and crime claims, \$1,000 for automobile physical damage; \$3,500 per occurrence for boiler & machinery deductible; deductible for legal liability is \$10,000 per occurrence; and \$25,000 deductible per occurrence for

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

pollution legal liability. Stop loss insurance is purchased for the Program and coverage amounts were established for claims in excess of \$1,286,032 and \$1,284,801 for fiscal year 2016 and 2015, respectively. Coverage for boiler and machinery, school board legal liability, as well as pollution legal liability are purchased outside of the LFP Program's retention program.

Excess insurance coverage provided by the LFP Program above the \$150,000 retention per loss are \$350 million per occurrence for excess property (\$10 million in the aggregate for flood and \$25 million in aggregate for earthquake); \$3 million per occurrence and \$1 million per aggregate per district for excess liability (general liability, automobile, school board legal, sexual abuse and molestation, and employee benefits); \$250 million per occurrence for boiler and equipment; \$5 million policy aggregate/\$1 million per incident/\$1 million aggregate per district for pollution legal liability; and \$500,000 each and every loss for criminal acts coverage. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first \$150,000 of any additional covered loss.

The LFP Program annually establishes a liability for claims that are based on estimates of the ultimate cost of claims that have been reported but not settled ("case reserve") and of claims that have been incurred but not reported ("IBNR reserve"), net of estimated salvage and subrogation. The length of time for which such costs must be estimated varies depending on the coverage involved. The liabilities established for future claim payments were \$1,142,523 at June 30, 2016.

The LFP Program issues a separate stand-alone financial report annually which provides additional information on the LFP Program. To obtain a copy of the report, write to Southwestern Ohio Educational Purchasing Council at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 5 – MEDICAL BENEFITS POOL:

The Self-Insured Medical Insurance Benefits Program (the Medical Program) 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 Medical Program. Payments of these claims are settled by the contributions collected and maintained by the Medical Program and, therefore, the majority of the claim risk remains with the Medical Program.

At June 30, 2016 the United HealthCare plan option had 28 participating member school districts with approximately 5,100 covered employees. The Anthem plan option had 48 participating member school districts with approximately 7,900 covered employees.

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 Medical Program at the October 1 renewal date. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. Benefit levels are determined by the participating member school districts in consultation with the Medical Program.

The Medical Program has purchased stop-loss insurance to help minimize its total risk exposure. Stop-

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

loss insurance limits were set at \$550,000 specific claims expected for Anthem and United HealthCare, for fiscal year 2016. Each plan option has an effective policy year of October 1 through September 30 of the following calendar year.

The Medical Program annually establishes a provision for claims payable based on information calculated by the TPA and the Medical 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 yet reported. The liabilities established for future claim payments were \$12,086,000 at June 30, 2016.

The Program offers 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, 2016 there were 57 participating districts in the program covering approximately 16,000 employees.

The Medical Program issues a separate stand-alone financial report annually which provides additional information on the Program. To obtain a copy of the report, write to Southwestern Ohio Educational Purchasing Council at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 6 – DENTAL AND VISION BENEFITS POOL:

The Self-Insured Dental and Vision Benefits Program (Dental Program) 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 Dental Program and the participating school districts. With the relatively low individual benefit levels, the Dental Program does not have stop-loss insurance coverage for its dental or vision plans.

The Dental Program pays the dental and vision claims submitted by covered employees from contributions collected and maintained by the Dental Program, and therefore, the risk remains with the Dental 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 Dental Program.

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.

As of June 30, 2016, the dental coverage there was 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 and dependents.

The Dental Program annually establishes a provision for claims payable based on information calculated by the TPA and the Medical 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

Southwestern Ohio Educational Purchasing Council
Montgomery County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

incurred but not yet reported. The liabilities established for future claim payments were \$632,000 at June 30, 2016.

The Dental Program issues a separate stand-alone financial report annually which provides additional information on the Program. To obtain a copy of the report, write to Southwestern Ohio Educational Purchasing Council at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 7 – RISK MANAGEMENT:

The Council has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Errors and omissions
- Cyber liability coverage for \$1 million per occurrence/\$5 million aggregate

Coverage amounts have not decreased nor have claims exceeded coverage limits in any of the past three fiscal years.

NOTE 8 – CONTINGENCIES AND COMMITMENTS:

Litigation

The Council is party to various legal proceedings, which normally occur in the course of claims processing operations of the Liability, Fleet and Property Insurance Pool operated by the Council. Such litigation is associated with seeking subrogation judgments against responsible parties as well as representing participating districts against claims filed against them. Management believes that the outcome of such claims has been adequately accounted for in the claims reserve liability and any excess will be covered by insurance carriers that provide excess insurance and reinsurance contracts. Nevertheless, due to uncertainties in the settlement process, it is possible the actual outcome of these claims could change materially from the results currently expected.

Encumbrances Outstanding

At June 30, 2016, the Council had outstanding encumbrances of \$734 in the general fund.

November 22, 2016

To the Executive Board
Southwestern Ohio Educational Purchasing Council
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 and the Comptroller General of the United States’ *Government Auditing Standards*, the accompanying financial statements of the Southwestern Ohio Educational Purchasing Council (the “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 Council’s basic financial statements, and have issued our report thereon dated November 22, 2016, wherein we noted the Council followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Council’s internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion(s) on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council’s internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Council’s financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Council'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

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL

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
JANUARY 19, 2017**