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## **Southwestern Ohio Educational Purchasing Council Montgomery County, Ohio**

Financial Statements – Cash Basis  
June 30, 2012 and 2011  
(with Independent Auditors' Report)





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Southwestern Ohio Educational Purchasing Council, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2010 through June 30, 2012. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

March 27, 2013

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Southwestern Ohio Educational Purchasing Council  
330 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Southwestern Ohio Educational Purchasing Council (the Council) as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Council'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 reasonably assure 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 described more fully in Note 1, the Council has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Council's larger (i.e. major) funds separately. While the Council does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended June 30, 2012 and 2011 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2012 and 2011, or its changes in financial position or cash flows, where applicable for the years then ended.

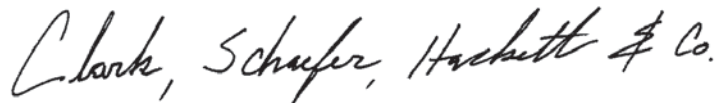
2525 north limestone street, ste. 103  
springfield, oh 45503

www.cshco.com  
p. 937.399.2000  
f. 937.399.5433

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Council as of June 30, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 10, the Council adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ending June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the Council's internal control over financial reporting and 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 the internal control over financial reporting or on 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.

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

Springfield, Ohio  
February 15, 2013



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2012**

|                                    | <b>General<br/>Fund</b> |
|------------------------------------|-------------------------|
| <b>Cash Receipts:</b>              |                         |
| Membership Fees                    | \$ 154,190              |
| Charges for Services               | 423,133                 |
| Member Events                      | 101,686                 |
| Miscellaneous Receipts             | 3,355                   |
| Total Cash Receipts                | 682,364                 |
| <b>Cash Disbursements:</b>         |                         |
| Current:                           |                         |
| General Government                 | 773,000                 |
| Capital Outlay                     | 3,231                   |
| Total Cash Disbursements           | 776,231                 |
| Net Change in Fund Cash Balances   | (93,867)                |
| Fund Cash Balances, July 1         | 372,749                 |
| <b>Fund Cash Balances, June 30</b> |                         |
| Assigned for Future Obligations    | 9,723                   |
| Unassigned                         | 269,159                 |
| Fund Cash Balances, June 30        | \$ 278,882              |

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND BALANCE - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2012**

|                                      | <u>Enterprise<br/>Funds</u> |
|--------------------------------------|-----------------------------|
| <b>Operating Cash Receipts:</b>      |                             |
| Natural Gas Remittance               | \$ 11,855,668               |
| Insurance Premiums from Members:     |                             |
| Liability, Fleet and Property        | 2,649,475                   |
| Health Benefits                      | 135,450,231                 |
| Life Insurance                       | 849,287                     |
| Prescription Rebate                  | 2,253,695                   |
| Reimbursement of Claims              | 1,300,941                   |
| Charges for Services                 | 553,361                     |
| Miscellaneous                        | <u>1,996</u>                |
| Total Operating Cash Receipts        | <u>154,914,654</u>          |
| <b>Operating Cash Disbursements:</b> |                             |
| Natural Gas Contractual Payments     | 11,692,645                  |
| Payment of Claims:                   |                             |
| Liability, Fleet and Property        | 2,028,700                   |
| Health Benefits                      | 129,304,683                 |
| Insurance Premiums:                  |                             |
| Excess/Stop Loss Insurance           | 3,023,105                   |
| Life Insurance                       | 522,075                     |
| Third Party Administrators           | 6,544,707                   |
| Wellness Programs                    | 474,469                     |
| Program Administration               | 1,153,239                   |
| Other Contractual Services           | 842,771                     |
| Miscellaneous                        | <u>3,401</u>                |
| Total Operating Cash Disbursements   | <u>155,589,795</u>          |
| Operating Income/(Loss)              | (675,141)                   |
| <b>Non-Operating Cash Receipts:</b>  |                             |
| Interest Earnings                    | <u>149,459</u>              |
| Net Change in Fund Cash Balances     | (525,682)                   |
| Fund Cash Balances, July 1           | <u>29,213,153</u>           |
| <b>Fund Cash Balances, June 30</b>   | <u><u>\$ 28,687,471</u></u> |

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2011**

|                                    | <b>General<br/>Fund</b> |
|------------------------------------|-------------------------|
| <b>Cash Receipts:</b>              |                         |
| Membership Fees                    | \$ 145,794              |
| Charges for Services               | 481,969                 |
| Interest Earnings                  | 97                      |
| Member Events                      | 77,539                  |
| Miscellaneous Receipts             | 2,100                   |
| Total Cash Receipts                | 707,499                 |
| <b>Cash Disbursements:</b>         |                         |
| Current:                           |                         |
| General Government                 | 746,266                 |
| Capital Outlay                     | 10,011                  |
| Total Cash Disbursements           | 756,277                 |
| Net Change in Fund Cash Balances   | (48,778)                |
| Fund Cash Balances, July 1         | 421,527                 |
| <b>Fund Cash Balances, June 30</b> |                         |
| Assigned for Future Obligations    | 28,905                  |
| Unassigned                         | 343,844                 |
| Fund Cash Balances, June 30        | \$ 372,749              |

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND BALANCE - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2011**

|                                      | <u>Enterprise<br/>Funds</u> |
|--------------------------------------|-----------------------------|
| <b>Operating Cash Receipts:</b>      |                             |
| Natural Gas Remittance               | \$ 11,303,730               |
| Insurance Premiums from Members:     |                             |
| Liability, Fleet and Property        | 2,509,065                   |
| Health Benefits                      | 122,055,711                 |
| Life Insurance                       | 703,195                     |
| Prescription Rebate                  | 1,609,235                   |
| Reimbursement of Claims              | 188,265                     |
| Charges for Services                 | 371,818                     |
| Miscellaneous                        | <u>41,058</u>               |
| Total Operating Cash Receipts        | <u>138,782,077</u>          |
| <b>Operating Cash Disbursements:</b> |                             |
| Natural Gas Contractual Payments     | 11,290,541                  |
| Payment of Claims:                   |                             |
| Liability, Fleet and Property        | 869,193                     |
| Health Benefits                      | 112,296,068                 |
| Insurance Premiums:                  |                             |
| Excess/Stop Loss Insurance           | 2,902,904                   |
| Life Insurance                       | 526,766                     |
| Third Party Administrators           | 6,129,978                   |
| Wellness Programs                    | 968,811                     |
| Program Administration               | 957,872                     |
| Other Contractual Services           | 622,161                     |
| Miscellaneous                        | <u>7,915</u>                |
| Total Operating Cash Disbursements   | <u>136,572,209</u>          |
| Operating Income/(Loss)              | 2,209,868                   |
| <b>Non-Operating Cash Receipts:</b>  |                             |
| Interest Earnings                    | <u>219,877</u>              |
| Net Change in Fund Cash Balances     | 2,429,745                   |
| Fund Cash Balances, July 1           | <u>26,783,408</u>           |
| <b>Fund Cash Balances, June 30</b>   | <u><u>\$ 29,213,153</u></u> |

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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**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 over 110 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 years 2012 and 2011, 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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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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 5 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. Collections are then remitted to Energy USA on a monthly basis.

*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 6 for additional information on the Medical Benefits Program.

*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 7 for additional information on the Dental and Vision Benefits Program.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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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.

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

F. Budgetary Process

Section 3 of the Council's Constitution and By-Laws require that the Council's Executive Board approve annual appropriations.

Appropriations – The Executive Committee annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

Estimated Resources – Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1 of each year. Estimated resources are not required to be officially adopted by the Executive Board.

Encumbrances – The Council's Constitution and By-Laws require the Council to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over to the subsequent year.

The budgetary activity for fiscal years 2012 and 2011 is summarized in Note 4.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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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.

**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, 2012 and 2011 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, 2012 and 2011, all of the Council's bank deposits were covered FDIC insurance coverage.

Investments

As noted previously, investments are carried at cost by the Council. At June 30, 2012 and 2011 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, 2012 and 2011.

|                          | Carrying<br>Value    | Maturities            |                            |                             | % of<br>Portfolio |
|--------------------------|----------------------|-----------------------|----------------------------|-----------------------------|-------------------|
|                          |                      | Less than<br>One Year | One Year to<br>Three Years | Four Years to<br>Five Years |                   |
| <u>At June 30, 2012:</u> |                      |                       |                            |                             |                   |
| FHLB Bonds               | \$ 7,499,172         | \$ 2,250,176          | \$ 3,248,975               | \$ 2,000,021                | 39.58%            |
| FNMA Bonds               | 4,998,537            | -                     | -                          | 4,998,537                   | 26.38%            |
| FNMA Notes               | 3,799,974            | -                     | 3,249,964                  | 550,010                     | 20.06%            |
| Money Market             | <u>2,649,433</u>     | <u>2,649,433</u>      | <u>-</u>                   | <u>-</u>                    | <u>13.98%</u>     |
| Total Investments        | <u>\$ 18,947,116</u> | <u>\$ 4,899,609</u>   | <u>\$ 6,498,939</u>        | <u>\$ 7,548,568</u>         | <u>100.00%</u>    |



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

|                          | Carrying<br>Value    | Maturities            |                            |                             | % of<br>Portfolio |
|--------------------------|----------------------|-----------------------|----------------------------|-----------------------------|-------------------|
|                          |                      | Less than<br>One Year | One Year to<br>Three Years | Four Years to<br>Five Years |                   |
| <u>At June 30, 2011:</u> |                      |                       |                            |                             |                   |
| FFCB Bonds               | \$ 2,250,016         | \$ -                  | \$ 2,250,016               | \$ -                        | 11.97%            |
| FHLB Bonds               | 4,249,931            | -                     | 2,249,926                  | 2,000,005                   | 22.61%            |
| FHLMC Bonds              | 2,500,000            | -                     | -                          | 2,500,000                   | 13.30%            |
| FHLMC Notes              | 2,250,016            | -                     | 1,250,016                  | 1,000,000                   | 11.97%            |
| FNMA Notes               | 2,000,000            | -                     | -                          | 2,000,000                   | 10.64%            |
| Money Market             | <u>5,548,735</u>     | <u>5,548,735</u>      | <u>-</u>                   | <u>-</u>                    | <u>29.51%</u>     |
| Total Investments        | <u>\$ 18,798,698</u> | <u>\$ 5,548,735</u>   | <u>\$ 5,749,958</u>        | <u>\$ 7,500,005</u>         | <u>100.00%</u>    |

*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.

*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 years 2012 and 2011 the Council's investments in Federal Agency Securities were all rated AAA 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 SYSTEMS:**

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 2012 and 2011, 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, 2012.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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**NOTE 4 – BUDGETARY ACTIVITY:**

Budgetary activity for the years ending June 30, 2012 and 2011 is as follows:

*2012 Budgeted vs. Actual Receipts*

| Fund Type  | Budgeted<br>Receipts | Actual<br>Receipts    | Variance              |
|------------|----------------------|-----------------------|-----------------------|
| General    | \$ -                 | \$ 682,364            | \$ 682,364            |
| Enterprise | -                    | 155,064,113           | 155,064,113           |
| Total      | <u>\$ -</u>          | <u>\$ 155,746,477</u> | <u>\$ 155,746,477</u> |

*2012 Budgeted vs. Actual Budgetary Basis Expenditures*

| Fund Type  | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance               |
|------------|----------------------------|---------------------------|------------------------|
| General    | \$ 898,830                 | \$ 785,954                | \$ 112,876             |
| Enterprise | 145,485,205                | 155,602,984               | (10,117,779)           |
| Total      | <u>\$ 146,384,035</u>      | <u>\$ 156,388,938</u>     | <u>\$ (10,004,903)</u> |

*2011 Budgeted vs. Actual Receipts*

| Fund Type  | Budgeted<br>Receipts | Actual<br>Receipts    | Variance              |
|------------|----------------------|-----------------------|-----------------------|
| General    | \$ -                 | \$ 707,499            | \$ 707,499            |
| Enterprise | -                    | 139,001,954           | 139,001,954           |
| Total      | <u>\$ -</u>          | <u>\$ 139,709,453</u> | <u>\$ 139,709,453</u> |

*2011 Budgeted vs. Actual Budgetary Basis Expenditures*

| Fund Type  | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance            |
|------------|----------------------------|---------------------------|---------------------|
| General    | \$ 901,283                 | \$ 785,182                | \$ 116,101          |
| Enterprise | 145,523,765                | 136,572,209               | 8,951,556           |
| Total      | <u>\$ 146,425,048</u>      | <u>\$ 137,357,391</u>     | <u>\$ 9,067,657</u> |

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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**NOTE 5 – 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 46 entities participating in the LFP Program in both fiscal years ending June 30, 2012 and 2011.

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 retains the first \$250,000 of each loss for general liability, automobile, crime and surety and property claims. Each participating district has a maintenance deductible of \$1,000 for property, automobile physical damage and crime claims. Stop loss insurance is purchased for the LFP Program and coverage amounts were established for claims in excess of \$1,136,000 and \$1,124,497 for the years ended June 30, 2012 and 2011, respectively. Coverage for boiler and machinery, as well as school leaders errors and omissions, are purchased outside of the LFP Program retention program.

Excess insurance coverage provided by the LFP Program above the \$250,000 retention per loss are \$300 million policy limit, \$5 million in the aggregate for flood and earthquake losses, \$1 million per occurrence for auto liability, and \$1 million per occurrence/\$3 million annual aggregate for general liability losses in the primary coverage with a \$5 million per occurrence/annual aggregate coverage in excess liability coverage. All coverage limits are applied on a per member basis. 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 \$250,000 of any additional covered loss. Premiums of \$1,428,597 and \$1,473,369 were paid to excess insurers for the years ended June 30, 2012 and 2011, respectively.

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 \$1,755,028 and \$1,204,882 at June 30, 2012 and 2011, respectively.

The LFP 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 – 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

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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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, 2012 the United HealthCare plan option had 22 participating member school districts with approximately 4,525 covered employees. The Anthem plan option had 37 participating member school districts with approximately 5,550 covered employees. For fiscal year 2011, the Anthem option plan had 34 participating member school districts with approximately 5,100 covered employees and the United HealthCare plan option had 22 participating member school districts with approximately 4,700 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<sup>st</sup> 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-loss insurance limits were set at \$400,000 and \$500,000 specific claims expected for Anthem and United HealthCare, for fiscal year 2012 and fiscal year 2011, respectively. 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 \$8,999,627 and \$8,997,018 at June 30, 2012 and 2011, respectively.

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, 2012 there were 37 participating districts in the program covering approximately 10,050 employees. At June 30, 2011 there were 36 participating districts in the program covering approximately 9,000 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 7 – 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.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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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, 2012, the dental coverage there was 44 participating member school districts covering approximately 8,000 eligible employees and their dependents. Vision coverage was offered by 30 participating member school districts with approximately 4,100 covered employees and dependents. For the year ended June 30, 2011, the dental coverage was offered by 44 participating member school districts covering approximately 8,300 eligible employees and their dependents. Vision coverage was offered by 28 participating member school districts with approximately 4,000 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 incurred but not yet reported. The liabilities established for future claim payments were \$457,000 and \$463,316 at June 30, 2012 and 2011, respectively.

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 8 – RISK MANAGEMENT:**

The Council has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Errors and omissions

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

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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**NOTE 9 – 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, 2012 the Council had outstanding encumbrances of \$9,723 and \$13,189 in the general fund and enterprise funds, respectively. At June 30, 2011 the Council had outstanding encumbrances of \$28,905 in the general fund.

**NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLES:**

During fiscal year 2011, the Council implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

**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  
330 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the financial statements of the Southwestern Ohio Educational Purchasing Council (the Council), as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated February 15, 2013, wherein it was noted the Council prepared its financial statements using accounting practices the Auditor of State prescribes or permits, which is a basis other than accounting principles generally accepted in the United States of America. 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**

Management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council'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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council'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 previously.

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

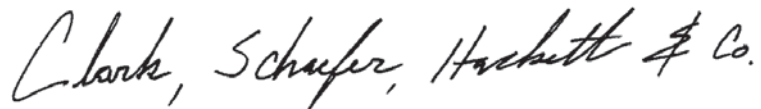
www.cshco.com  
p. 937.399.2000  
f. 937.399.5433

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the Council in a separate letter dated February 15, 2013.

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

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

Springfield, Ohio  
February 15, 2013



Southwestern Ohio Educational Purchasing Council  
Schedule of Financial Statement Findings  
For the Years Ended June 30, 2012 and 2011

**None Noted**

Southwestern Ohio Educational Purchasing Council  
Schedule of Prior Audit Findings  
For the Years Ended June 30, 2012 and 2011

**Finding Number 2010-1:** Effective for fiscal year 2009, the Council became fiscally responsible for the health and dental benefit coverage (the Plan), previously provided by the Southwestern Ohio Purchasing Council Benefit Plan; however the accounting records of the Council did not properly include the cash receipts and cash disbursements associated with the Plan for fiscal year 2009.

Status: *Corrected in fiscal year 2010.*

**Finding Number 2010-2:** While the Council was able to reconcile the combined cash balances of all funds for fiscal years 2010 and 2009, the ending cash balance of the respective insurance programs could not be reconciled to the separate bank and investment accounts maintained for these programs.

Status: *Corrected for fiscal year 2011.*



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

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# 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  
APRIL 9, 2013**