

Southwestern Ohio Educational Purchasing Council Montgomery County, Ohio

Financial Statements – Cash Basis
June 30, 2014 and 2013
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, 2012 through June 30, 2014. 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

April 13, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014 and 2013.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

As described in Note 1(B) 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, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1(B) and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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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, 2014 and 2013, or changes in financial position or cash flows thereof for the years 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 fund cash balances of the Council as of June 30, 2014 and 2013, and its combined receipts and disbursements for the years 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(B).

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, 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 purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2014

**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, 2014**

	General Fund
Cash Receipts:	
Membership Fees	\$ 158,868
Charges for Services	855,085
Interest Earnings	1,786
Member Events	92,535
Miscellaneous Receipts	1,392
Total Cash Receipts	1,109,666
Cash Disbursements:	
Current:	
General Government	934,843
Capital Outlay	23,997
Total Cash Disbursements	958,840
Net Change in Fund Cash Balances	150,826
Fund Cash Balances, July 1	276,879
Fund Cash Balances, June 30	
Assigned for Future Obligations	5,099
Unassigned	422,606
Fund Cash Balances, June 30	\$ 427,705

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, 2014**

	Enterprise Funds
Operating Cash Receipts:	
Natural Gas Remittance	\$ 38,925
Insurance Premiums from Members:	
Liability, Fleet and Property	3,572,180
Health Benefits	150,251,884
Life Insurance	508,130
Prescription Rebate	2,905,661
Reimbursement of Claims	369,682
Charges for Services	267,690
Miscellaneous	2,875
Total Operating Cash Receipts	157,917,027
Operating Cash Disbursements:	
Natural Gas Contractual Payments	600
Payment of Claims:	
Liability, Fleet and Property	1,260,447
Health Benefits	134,671,679
Insurance Premiums:	
Excess/Stop Loss Insurance	3,434,488
Life Insurance	500,731
Third Party Administrators	7,672,725
Wellness Programs	429,827
Program Administration	1,182,455
Other Contractual Services	628,035
Miscellaneous	22,579
Total Operating Cash Disbursements	149,803,566
Operating Income/(Loss)	8,113,461
Non-Operating Cash Receipts:	
Interest Earnings	103,153
Net Change in Fund Cash Balances	8,216,614
Fund Cash Balances, July 1	33,337,741
Fund Cash Balances, June 30	\$ 41,554,355

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, 2013**

	General Fund
Cash Receipts:	
Membership Fees	\$ 152,010
Charges for Services	471,084
Interest Earnings	4,935
Member Events	53,327
Miscellaneous Receipts	185,344
Total Cash Receipts	866,700
Cash Disbursements:	
Current:	
General Government	850,983
Capital Outlay	17,720
Total Cash Disbursements	868,703
Net Change in Fund Cash Balances	(2,003)
Fund Cash Balances, July 1	278,882
Fund Cash Balances, June 30	
Assigned for Future Obligations	5,061
Unassigned	271,818
Fund Cash Balances, June 30	\$ 276,879

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, 2013**

	<u>Enterprise Funds</u>
Operating Cash Receipts:	
Natural Gas Remittance	\$ 299,047
Insurance Premiums from Members:	
Liability, Fleet and Property	3,275,835
Health Benefits	138,473,735
Life Insurance	517,565
Prescription Rebate	2,618,090
Reimbursement of Claims	1,748,440
Product Rebates	602,390
Charges for Services	<u>1,255</u>
Total Operating Cash Receipts	<u>147,536,357</u>
Operating Cash Disbursements:	
Natural Gas Contractual Payments	490,813
Payment of Claims:	
Liability, Fleet and Property	2,373,766
Health Benefits	126,280,100
Insurance Premiums:	
Excess/Stop Loss Insurance	3,508,346
Life Insurance	514,897
Third Party Administrators	6,991,894
Wellness Programs	1,069,598
Program Administration	711,446
Other Contractual Services	870,523
Miscellaneous	<u>172,852</u>
Total Operating Cash Disbursements	<u>142,984,235</u>
Operating Income/(Loss)	4,552,122
Non-Operating Cash Receipts:	
Interest Earnings	<u>107,812</u>
Net Change in Fund Cash Balances	4,659,934
Fund Cash Balances, July 1	<u>28,687,471</u>
Fund Cash Balances, June 30	<u><u>\$ 33,347,405</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, 2014 and 2013

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 120 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 2014 and 2013, 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, 2014 and 2013

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. 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 to 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 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, 2014 and 2013

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 2014 and 2013 is summarized in Note 4.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

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, 2014 and 2013 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, 2014 and 2013, FDIC insurance covered \$250,000 of the Council's bank deposits and pooled collateral covered \$22,581,420 and \$14,545,184, respectively at the end of each fiscal year.

Investments

As noted previously, investments are carried at cost by the Council. At June 30, 2014 and 2013 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, 2014 and 2013.

	Carrying Value	Maturities			% of Portfolio
		Less than One Year	One Year to Three Years	Four Years to Five Years	
<u>At June 30, 2014:</u>					
FFCB Bonds	\$ 400,011	\$ -	\$ 400,011	\$ -	2.09%
FHLB Bonds	5,498,222	999,540	1,999,361	2,499,321	28.71%
FHLMC Notes	4,354,305	1,254,378	1,999,984	1,099,943	22.73%
FNMA Notes	5,053,625	-	2,053,804	2,999,821	26.39%
Money Market	<u>3,845,029</u>	<u>3,845,029</u>	<u>-</u>	<u>-</u>	<u>20.08%</u>
Total Investments	<u>\$ 19,151,192</u>	<u>\$ 6,098,947</u>	<u>\$ 6,453,160</u>	<u>\$ 6,599,085</u>	<u>100.00%</u>

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

	Carrying Value	Maturities			% of Portfolio
		Less than One Year	One Year to Three Years	Four Years to Five Years	
<u>At June 30, 2013:</u>					
FFCB Bonds	\$ 1,500,221	\$ 1,000,211	\$ 500,010	\$ -	7.88%
FHLB Bonds	4,498,832	-	1,000,011	3,498,821	23.62%
FHLMC Notes	2,504,894	-	2,504,894	-	13.15%
FNMA Notes	7,803,651	-	2,753,919	5,049,732	40.97%
Money Market	<u>2,739,877</u>	<u>2,739,877</u>	<u>-</u>	<u>-</u>	<u>14.38%</u>
Total Investments	<u>\$ 19,047,475</u>	<u>\$ 3,740,088</u>	<u>\$ 6,758,834</u>	<u>\$ 8,548,553</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 2014 and 2013 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 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 2014 and 2013, 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, 2014.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

NOTE 4 – BUDGETARY ACTIVITY:

Budgetary activity for the years ending June 30, 2014 and 2013 is as follows:

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 1,109,666	\$ 1,109,666
Enterprise	-	158,020,180	158,020,180
Total	<u>\$ -</u>	<u>\$ 159,129,846</u>	<u>\$ 159,129,846</u>

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,023,401	\$ 963,939	\$ 59,462
Enterprise	153,582,000	149,803,566	3,778,434
Total	<u>\$ 154,605,401</u>	<u>\$ 150,767,505</u>	<u>\$ 3,837,896</u>

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 866,700	\$ 866,700
Enterprise	-	147,644,169	147,644,169
Total	<u>\$ -</u>	<u>\$ 148,510,869</u>	<u>\$ 148,510,869</u>

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 998,228	\$ 873,764	\$ 124,464
Enterprise	167,996,873	142,984,235	25,012,638
Total	<u>\$ 168,995,101</u>	<u>\$ 143,857,999</u>	<u>\$ 25,137,102</u>

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

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 53 entities participating in the LFP Program in fiscal year 2014 and 46 entities participating in fiscal year 2013.

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 \$150,000 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 \$1,379,177 and \$1,263,956 for the years ended June 30, 2014 and 2013, 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 \$1,882,476 and \$1,782,746 were paid to excess insurers for the years ended June 30, 2014 and 2013, 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 \$1,674,479 and \$1,865,704 at June 30, 2014 and 2013, 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, 2014 and 2013

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, 2014 the United HealthCare plan option had 22 participating member school districts with approximately 4,700 covered employees. The Anthem plan option had 34 participating member school districts with approximately 5,100 covered employees. For fiscal year 2013, the Anthem option plan had 39 participating member school districts with approximately 6,150 covered employees and the United HealthCare plan option had 24 participating member school districts with approximately 4,400 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 1st 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 2014 and fiscal year 2013, 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 \$11,795,415 and \$10,587,563 at June 30, 2014 and 2013, 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, 2014 there were 39 participating districts in the program covering approximately 10,500 employees. At June 30, 2013 there were also 39 participating districts in the program covering approximately 10,500 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 208Vandalia, 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, 2014 and 2013

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, 2014, the dental coverage there was 45 participating member school districts covering approximately 7,900 eligible employees and their dependents. Vision coverage was offered by 35 participating member school districts with approximately 5,100 covered employees and dependents. For the year ended June 30, 2013, the dental coverage was offered by 44 participating member school districts covering approximately 8,500 eligible employees and their dependents. Vision coverage was offered by 31 participating member school districts with approximately 4,500 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 \$446,000 and \$464,000 at June 30, 2014 and 2013, 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, 2014 and 2013

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, 2014 and 2013, the Council had outstanding encumbrances of \$5,099 and \$5,061 in the general fund, respectively. The enterprise funds had no outstanding encumbrances at the end of either fiscal year.

**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, 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, the financial statements of the Southwestern Ohio Educational Purchasing Council (the Council), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2014, wherein we noted the Council prepared its 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, which is a basis other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

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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*.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2014

Southwestern Ohio Educational Purchasing Council
Schedule of Financial Statement Findings
For the Years Ended June 30, 2014 and 2013

None Noted

Southwestern Ohio Educational Purchasing Council
Schedule of Prior Audit Findings
For the Years Ended June 30, 2014 and 2013

None Reported



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
MAY 7, 2015**