

Southwestern Ohio Educational  
Purchasing Council  
Montgomery County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2018





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Southwestern Ohio Educational Purchasing Council, Montgomery County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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

December 28, 2018

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

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December 5, 2018

To the Executive Board  
Southwestern Ohio Educational Purchasing Council  
303 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio, (the "Council") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

As described in Note 2, the Council restated the net position balance for governmental activities to account for the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis; Schedule of the Council's Proportionate Share of the Net Pension Liability, Schedule of the Council's Contributions - Pension, Schedule of the Council's Proportionate Share of the Net OPEB, Schedule of the Council's Contributions - OPEB, Liability, Fleet and Property Insurance Program - Reconciliation or Claims Liability by Type of Contract; Liability, Fleet and Property Insurance Program - Schedule of Claims Development; Self-Insured Medical Insurance Benefits Program - Schedule of Claims Development and Self-Insured Dental and Vision Plan Program - Schedule of Claims Development* on pages 5-11, 50, 51, 52, 53, 55, 56, 57 and 58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 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 the effectiveness of the Council's 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.

*Rea & Associates, Inc.*

Lima, Ohio

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*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

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The discussion and analysis of Southwestern Ohio Educational Purchasing Council's (the Council) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. We encourage the reader to consider the information presented here in conjunction with the basic financial statements taken as a whole.

***Financial Highlights***

Key financial highlights for 2018 are as follows:

- The total net position of the Council decreased \$17,766,402. Net position of governmental activities increased \$13,978 which represents a 7% increase over the 2017 restated net position. Net position of business-type activities decreased \$17,780,380 or 62% over 2017.
- The Council implemented GASB 75, which reduced beginning net position as previously reported by \$516,770.

***Using this Annual Report***

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Council as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole Council, presenting both an aggregate view of the Council's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Council's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Council, the general fund is the only governmental fund.

***Reporting the Council as a Whole***

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the Council to provide programs and activities, the view of the Council as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Council's net position and changes in net position. This change in net position is important because it tells the reader that, for the Council as a whole, the financial position of the Council has improved or diminished.

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In the statement of net position and the statement of activities, the Council is divided into two distinct kinds of activities:

Governmental Activities – This is the Council's operating fund.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

***Reporting the Council's Most Significant Fund***

*Fund Financial Statements*

The analysis of major fund begins on page 10. Fund financial reports provide detailed information about the Council's major funds. The Council uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Council's most significant funds. The Council's major governmental fund is the general fund.

***Governmental Funds*** The Council's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Council's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Fund*** The Council maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 19.

***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Council's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 22 of this report.

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The Council as a Whole

Table 1 provides a summary of the Council's net position for fiscal years 2018 and 2017.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018	2017	2018	Restated 2017
<b>Assets</b>						
Current and Other Assets	\$ 1,531,088	\$ 1,545,613	\$ 37,823,727	\$ 57,617,334	\$ 39,354,815	\$ 59,162,947
<b>Deferred Outflows of Resources</b>						
Pension & OPEB	473,289	426,860	0	0	473,289	426,860
<b>Liabilities</b>						
Current and Other Liabilities	83,035	87,035	27,019,293	29,032,520	27,102,328	29,119,555
Long Term Liabilities:						
Due Within One Year	65,614	56,271	0	0	65,614	56,271
Due in More Than One Year						
Net Pension & OPEB Liability	1,933,743	1,980,607	0	0	1,933,743	1,980,607
Other Amounts	36,206	31,842	0	0	36,206	31,842
<i>Total Liabilities</i>	<u>2,118,598</u>	<u>2,155,755</u>	<u>27,019,293</u>	<u>29,032,520</u>	<u>29,137,891</u>	<u>31,188,275</u>
<b>Deferred Inflows of Resources</b>						
Pension & OPEB	68,008	12,925	0	0	68,008	12,925
<b>Net Position</b>						
Restricted	707,237	538,653	0	0	707,237	538,653
Unrestricted	(889,466)	(734,860)	10,804,434	28,584,814	9,914,968	27,849,954
Total Net Position	<u>\$ (182,229)</u>	<u>\$ (196,207)</u>	<u>\$ 10,804,434</u>	<u>\$ 28,584,814</u>	<u>\$ 10,622,205</u>	<u>\$ 28,388,607</u>

The net pension liability (NPL) is the largest single long-term liability reported by the Council at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27*. For fiscal year 2018, the Council adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Council's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Council's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Council is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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In accordance with GASB 68 and GASB 75, the Council's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Council is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at July 1, 2017, from \$320,563 to a deficit of \$196,207.

Current assets of business-type activities decreased \$19,793,607 resulting from claims exceeding amounts charged to members.

Current liabilities of the business-type activities decreased \$2,013,227, due to claims payable; these estimates can fluctuate and are based on several variables.

The Statement of Revenues, Expenses and Changes in Net Position:

The table below shows the changes in net position for the fiscal year ending June 30, 2018. This will enable the reader to draw further conclusions about the Council's financial status.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,222,910	\$ 1,204,287	\$ 274,750,411	\$ 237,677,100	\$ 275,973,321	\$ 238,881,387
<i>General Revenues:</i>						
Investment Earnings	(108,647)	130,220	80,017	1,759	(28,630)	131,979
Miscellaneous	4,785	999	26,480	13,889	31,265	14,888
<i>Total General Revenues</i>	<u>(103,862)</u>	<u>131,219</u>	<u>106,497</u>	<u>15,648</u>	<u>2,635</u>	<u>146,867</u>
<i>Total Revenues</i>	<u>1,119,048</u>	<u>1,335,506</u>	<u>274,856,908</u>	<u>237,692,748</u>	<u>275,975,956</u>	<u>239,028,254</u>
<b>Program Expenses</b>						
<i>Instruction:</i>						
General Government	1,105,070	1,515,960	0	0	1,105,070	1,515,960
Self Help Gas Fund	0	0	6,363	6,363	6,363	6,363
Liability, Fleet and Property Insurance	0	0	2,953,614	3,095,134	2,953,614	3,095,134
Medical Benefits Insurance	0	0	275,404,026	236,113,320	275,404,026	236,113,320
Dental and Vision Insurance Benefits	0	0	14,273,285	12,963,633	14,273,285	12,963,633
<i>Total Expenses</i>	<u>1,105,070</u>	<u>1,515,960</u>	<u>292,637,288</u>	<u>252,178,450</u>	<u>293,742,358</u>	<u>253,694,410</u>
<i>Change in Net Position</i>	<u>\$ 13,978</u>	<u>\$ (180,454)</u>	<u>\$ (17,780,380)</u>	<u>\$ (14,485,702)</u>	<u>\$ (17,766,402)</u>	<u>\$ (14,666,156)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$47,935. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

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Total 2018 Program Expenses under GASB 75	\$ 1,105,070
OPEB Expense under GASB 75	(47,935)
2018 Contractually Required Contribution	3,834
Adjusted 2018 Program Expenses	1,060,969
Total 2017 Program Expenses under GASB 45	1,515,960
Decrease in Program Expenses not Related to OPEB	\$ (454,991)

The decrease in other program expenses is related to a decrease in general operating activities. The increase in business-type activities charges for services and medical benefits insurance is due to an increase in members.

***Governmental Fund***

The Council's only governmental fund, the general fund, reported a balance of \$1,448,053, which is lower than the prior year balance of \$1,458,578 by \$10,525.

***Proprietary Funds***

The liability, fleet, and property insurance fund net position balance increased \$640,346 as compared to the ending 2017 net position balance. Members' premiums decreased by \$127,380, or 3 percent, for fiscal year 2017 due to a decrease in contribution rates. Total expenses decreased by \$141,520, or 5 percent, compared to those reported for the prior year. Incurred claims and adjustment expense were also \$137,109 less than the prior year due to a decrease in the actuarial estimate.

The medical insurance benefits fund net position balance decreased \$18,347,989 as compared to the ending 2017 net position balance. These factors resulted in revenues exceeding expenses during 2018, due to an increase in medical claims expense exceeding the increase in member contributions caused by a significant increase in claims in fiscal year 2018.

The dental and vision insurance benefits fund net position balance decreased \$66,374 as compared to the ending 2017 net position balance. The \$1,563,035 increase in participant contributions from those reported in the prior year can be attributed to the increase in number of employees paying contributions under the dental and vision coverages for the current year. Dental rates increased 3 percent and vision coverage premium rates did not change over those of the prior plan year. Participant contributions associated with dental coverage account for approximately 90 percent of the total participant contribution while vision and dental coverage accounts for the remaining 10 percent.

As shown in table 2, approximately 94 percent of the \$292.6 million in expenses reported by the Council for fiscal year 2018 were directly related to the settlement of claims. In addition, another 5 percent of the expenses were paid to the third party administrators of the self-insured plans to process and administer the submitted claims. The increase in claims expense and third party administrator expense can be attributed mainly to the increase in covered employees.

The self-help gas fund net position balance decreased \$6,363.



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Contacting the Council's Financial Management:

This financial report is designed to provide member school districts and other users with a general overview of the Council's finances and to show accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact Ken Swink, Director at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377 or by calling (937) 890-3725.

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**Southwestern Ohio Educational Purchasing Council**  
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*Statement of Net Position*  
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	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Investments	\$ 1,526,303	\$ 16,554,695	\$ 18,080,998
Receivables:			
Accounts	4,785	300	5,085
Investments	0	21,268,732	21,268,732
<i>Total Assets</i>	<u>1,531,088</u>	<u>37,823,727</u>	<u>39,354,815</u>
<b>Deferred Outflows of Resources</b>			
Pension	419,412	0	419,412
OPEB	53,877	0	53,877
<i>Total Deferred Outflows of Resources</i>	<u>473,289</u>	<u>0</u>	<u>473,289</u>
<b>Liabilities</b>			
Accounts Payable	1,817	0	1,817
Accrued Wages and Benefits	70,393	0	70,393
Intergovernmental Payable	10,825	0	10,825
Unearned Participant Contributions	0	6,424,498	6,424,498
Claims Payable	0	20,594,795	20,594,795
Long Term Liabilities:			
Due Within One Year	65,614	0	65,614
Due In More Than One Year:			
Net Pension Liability	1,373,626	0	1,373,626
Net OPEB Liability	560,117	0	560,117
Other Amounts Due in More Than One Year	36,206	0	36,206
<i>Total Liabilities</i>	<u>2,118,598</u>	<u>27,019,293</u>	<u>29,137,891</u>
<b>Deferred Inflows of Resources</b>			
Pension	13,377	0	13,377
OPEB	54,631	0	54,631
<i>Total Deferred Inflows of Resources</i>	<u>68,008</u>	<u>0</u>	<u>68,008</u>
<b>Net Position</b>			
Restricted For:			
Program Rebates Owed to Members	707,237	0	707,237
Unrestricted	(889,466)	10,804,434	9,914,968
<i>Total Net Position</i>	<u>\$ (182,229)</u>	<u>\$ 10,804,434</u>	<u>\$ 10,622,205</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
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*Statements of Activities*  
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues Charges for Services and Sales	Net (Expense) Revenue and Changes in Net Position		Total
			Governmental Activities	Business-Type Activities	
<b>Governmental Activities</b>					
General Government	\$ 1,105,070	\$ 1,222,910	\$ 117,840	\$ 0	\$ 117,840
<i>Total Governmental Activities</i>	<u>1,105,070</u>	<u>1,222,910</u>	<u>117,840</u>	<u>0</u>	<u>117,840</u>
<b>Business-Type Activities</b>					
Self Help Gas Fund	6,363	0	0	(6,363)	(6,363)
Liability, Fleet and Property Insurance Program	2,953,614	3,582,429	0	628,815	628,815
Self-Insured Medical Insurance Benefits Program	275,404,026	256,969,360	0	(18,434,666)	(18,434,666)
Self-Insured Dental and Vision Plan Program	14,273,285	14,198,622	0	(74,663)	(74,663)
<i>Total Business-Type Activities</i>	<u>292,637,288</u>	<u>274,750,411</u>	<u>0</u>	<u>(17,886,877)</u>	<u>(17,886,877)</u>
<i>Totals</i>	<u>\$ 293,742,358</u>	<u>\$ 275,973,321</u>	<u>117,840</u>	<u>(17,886,877)</u>	<u>(17,769,037)</u>
<b>General Revenues</b>					
Investment Income			(108,647)	80,017	(28,630)
Miscellaneous			4,785	26,480	31,265
<i>Total General Revenues</i>			<u>(103,862)</u>	<u>106,497</u>	<u>2,635</u>
<i>Change in Net Position</i>			13,978	(17,780,380)	(17,766,402)
<i>Net Position Beginning of Year , Restated See Note 2</i>			<u>(196,207)</u>	<u>28,584,814</u>	<u>28,388,607</u>
<i>Net Position End of Year</i>			<u>\$ (182,229)</u>	<u>\$ 10,804,434</u>	<u>\$ 10,622,205</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Balance Sheet*  
*Governmental Fund*  
*June 30, 2018*

	General Fund
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 1,526,303
Receivables:	
Accounts	4,785
<i>Total Assets</i>	\$ 1,531,088
<b>Liabilities</b>	
Accounts Payable	\$ 1,817
Accrued Wages and Benefits	70,393
Intergovernmental Payable	10,825
<i>Total Liabilities</i>	83,035
<b>Fund Balances</b>	
Restricted for Program Rebates Owed to Members	707,237
Unassigned	740,816
<i>Total Fund Balances</i>	1,448,053
<i>Total Liabilities and Fund Balances</i>	\$ 1,531,088

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Reconciliation of Total Governmental Fund Balance to*  
*Net Position of Governmental Activities*  
*June 30, 2018*

<b>Total Governmental Fund Balances</b>		\$ 1,448,053
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
 The net pension/OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		
Deferred Outflows - Pension & OPEB	473,289	
Deferred Inflows - Pension & OPEB	(68,008)	
Net Pension Liability	(1,373,626)	
Net OPEB Liability	<u>(560,117)</u>	(1,528,462)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated Absences		<u>(101,820)</u>
 <i>Net Position of Governmental Activities</i>		 <u><u>\$ (182,229)</u></u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Fund*  
*For the Fiscal Year Ended June 30, 2018*

	General
<b>Revenues</b>	
Member Events	\$ 64,439
Investment Income	(108,647)
Charges for Services	1,158,471
Miscellaneous	4,785
<i>Total Revenues</i>	1,119,048
<b>Expenditures</b>	
Current:	
General Government	1,122,772
Capital Outlay	6,801
<i>Total Expenditures</i>	1,129,573
<i>Net Change in Fund Balance</i>	(10,525)
<i>Fund Balances Beginning of Year</i>	1,458,578
<i>Fund Balances End of Year</i>	\$ 1,448,053

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes*  
*in Fund Balance of Governmental Fund to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2018*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(10,525)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	103,507	
OPEB	3,834	107,341
 Except for amount reported as deferred inflows/outflows, changes in the net pension liability is reported as pension expense in the statement of activities.		
Pension	(21,196)	
OPEB	(47,935)	(69,131)
 Some expenses reported in the statement of activities do not require the use of the current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		(13,707)
 <i>Change in Net Position of Governmental Activities</i>	 \$	 13,978

See accompanying notes to the basic financial statements.



**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
June 30, 2018

	Business-Type Activities - Enterprise Funds				Total
	Liability, Fleet, and Property Insurance Fund	Medical Benefits Insurance Fund	Dental and Vision Insurance Benefits Fund	Non-Major Enterprise Fund	
<b>Assets</b>					
<i>Current Assets</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 2,101,122	\$ 13,229,448	\$ 1,066,616	\$ 157,509	\$ 16,554,695
Accounts Receivable	300	0	0	0	300
<i>Total Current Assets</i>	<u>2,101,422</u>	<u>13,229,448</u>	<u>1,066,616</u>	<u>157,509</u>	<u>16,554,995</u>
<i>Non-Current Assets:</i>					
Investments	1,332,522	18,979,996	956,214	0	21,268,732
<i>Total Assets</i>	<u>3,433,944</u>	<u>32,209,444</u>	<u>2,022,830</u>	<u>157,509</u>	<u>37,823,727</u>
<b>Liabilities</b>					
<i>Current Liabilities</i>					
Unearned Participant Contributions	174,773	5,858,881	390,844	0	6,424,498
Claims Payable	1,138,795	18,684,000	772,000	0	20,594,795
<i>Total Liabilities</i>	<u>1,313,568</u>	<u>24,542,881</u>	<u>1,162,844</u>	<u>0</u>	<u>27,019,293</u>
<b>Net Position</b>					
Unrestricted	<u>\$ 2,120,376</u>	<u>\$ 7,666,563</u>	<u>\$ 859,986</u>	<u>\$ 157,509</u>	<u>\$ 10,804,434</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2018*

	Business-Type Activities - Enterprise Funds				Total
	Liability, Fleet, and Property Insurance Fund	Medical Benefits Insurance Fund	Dental and Vision Insurance Benefits Fund	Mom-Major Enterprise Fund	
<b>Operating Revenues</b>					
Member Premiums	\$ 3,562,841	\$ 0	\$ 0	\$ 0	\$ 3,562,841
Subrogation	19,588	0	0	0	19,588
Member Contributions:					
Participant Contributions	0	245,413,619	14,198,622	0	259,612,241
Excess Insurance Premiums	0	(910,979)	0	0	(910,979)
Prescription Rebates	0	11,420,110	0	0	11,420,110
Life Insurance Premium Contributions	0	1,046,610	0	0	1,046,610
Other Revenues	0	26,480	0	0	26,480
<i>Total Operating Revenues</i>	<u>3,582,429</u>	<u>256,995,840</u>	<u>14,198,622</u>	<u>0</u>	<u>274,776,891</u>
<b>Operating Expenses</b>					
Administrator Fees	337,224	13,298,701	750,863	0	14,386,788
Claims Expense	2,589,970	259,094,558	13,431,066	0	275,115,594
Wellness Program	0	1,982,903	0	0	1,982,903
Life Insurance Policy Premiums	0	810,550	0	0	810,550
COBRA Expense	0	0	85,031	0	85,031
Other Contractual Services	26,420	217,314	6,325	6,363	256,422
<i>Total Operating Expenses</i>	<u>2,953,614</u>	<u>275,404,026</u>	<u>14,273,285</u>	<u>6,363</u>	<u>292,637,288</u>
<i>Operating Income (Loss)</i>	628,815	(18,408,186)	(74,663)	(6,363)	(17,860,397)
<b>Non-Operating Revenues (Expenses)</b>					
Investment Income	11,531	60,197	8,289	0	80,017
<i>Change in Net Position</i>	640,346	(18,347,989)	(66,374)	(6,363)	(17,780,380)
<i>Net Position Beginning of Year</i>	<u>1,480,030</u>	<u>26,014,552</u>	<u>926,360</u>	<u>163,872</u>	<u>28,584,814</u>
<i>Net Position End of Year</i>	<u>\$ 2,120,376</u>	<u>\$ 7,666,563</u>	<u>\$ 859,986</u>	<u>\$ 157,509</u>	<u>\$ 10,804,434</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2018

	Business-Type Activities - Enterprise Funds				Total
	Liability, Fleet, and Property Insurance Fund	Medical Benefits Insurance Fund	Dental and Vision Insurance Benefits Fund	Non-Major Enterprise Fund	
<b>Cash Flows From Operating Activities</b>					
Cash Received from Premium Contributions	\$ 3,508,357	\$ 242,445,471	\$ 14,061,413	\$ 0	\$ 260,015,241
Cash Received from Subrogation	19,588	0	0	0	19,588
Cash Received from Prescription Rebates	0	11,420,110	0	0	11,420,110
Cash Received from Life Insurance Premiums	0	1,046,610	0	0	1,046,610
Cash Received for Other Purposes	0	26,480	0	0	26,480
Cash Payments for Claim Payments	(2,670,656)	(258,010,558)	(13,288,066)	0	(273,969,280)
Cash Payment for Excess Insurance	0	(910,979)	0	0	(910,979)
Cash Payments for Program Administration and Claims Processing	(363,644)	(13,298,701)	(750,863)	0	(14,413,208)
Cash Payments for Wellness Program	0	(1,982,903)	0	0	(1,982,903)
Cash Payments for Other Contractual Services	0	(217,314)	0	0	(217,314)
Cash Payments for Life Insurance Policy Premiums	0	(810,550)	0	0	(810,550)
Cash Payments for Other Operating Expenses	0	0	(91,356)	(6,363)	(97,719)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>493,645</u>	<u>(20,292,334)</u>	<u>(68,872)</u>	<u>(6,363)</u>	<u>(19,873,924)</u>
<b>Cash Flows From Investing Activities</b>					
Interest on Investments	0	60,197	0	0	60,197
Cash Received From Sale of Investments	0	3,263,302	0	0	3,263,302
<i>Net Cash Provided By (Used For) Investing Activities</i>	<u>0</u>	<u>3,323,499</u>	<u>0</u>	<u>0</u>	<u>3,323,499</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	493,645	(16,968,835)	(68,872)	(6,363)	(16,550,425)
<i>Cash and Cash Equivalents, Beginning of Year</i>	<u>1,607,477</u>	<u>30,198,283</u>	<u>1,135,488</u>	<u>163,872</u>	<u>33,105,120</u>
<i>Cash and Cash Equivalents, End of Year</i>	<u>\$ 2,101,122</u>	<u>\$ 13,229,448</u>	<u>\$ 1,066,616</u>	<u>\$ 157,509</u>	<u>\$ 16,554,695</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>					
Operating Income (Loss)	\$ 628,815	\$ (18,408,186)	\$ (74,663)	\$ (6,363)	\$ (17,860,397)
(Increase) Decrease Assets/Deferred Outflows of Resources:					
Accounts Receivable	(300)	0	0	0	(300)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources:					
Claims Payable	(80,686)	1,084,000	143,000	0	1,146,314
Unearned Participant Contributions	(54,184)	(2,968,148)	(137,209)	0	(3,159,541)
<i>Total Adjustments</i>	<u>(135,170)</u>	<u>(1,884,148)</u>	<u>5,791</u>	<u>0</u>	<u>(2,013,527)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ 493,645</u>	<u>\$ (20,292,334)</u>	<u>\$ (68,872)</u>	<u>\$ (6,363)</u>	<u>\$ (19,873,924)</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*June 30, 2018*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 204,317
<b>Liabilities</b>	
Accounts Payable	\$ 826
Undistributed Monies	203,491
<i>Total Liabilities</i>	<u>\$ 204,317</u>

See accompanying notes to the basic financial statements.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 1 – DESCRIPTION OF THE COUNCIL**

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 approximately 184 school districts in southwest Ohio by the cooperative action of the membership.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the Council consists of all funds, departments, boards, and agencies that are not legally separate from the Council. For the Council, this includes general operations and enterprise funds of the Council.

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.

The Council is involved with the META Solutions, which is defined as a jointly governed organization. Additional information concerning the jointly governed organization is presented in Note 11.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Council have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for the establishing governmental accounting and financial reporting principles. The more significant of the Council's accounting policies and practices are described below.

**Basis of Presentation**

The Council's basic financial statements consist of government-wide statements, including the statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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***Government-Wide Financial Statements*** - The statement of net position and the statement of activities display information about the Council as a whole. These statements include the financial activities of the primary government except for fiduciary funds. These statements distinguish between those activities of the Council that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net position presents the financial condition of the governmental and business-type activities of the Council at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Council's governmental activities and for the business-type activities of the Council. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Council, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Council.

***Fund Financial Statements*** - During the fiscal year, the Council segregates transactions related to certain Council functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Council at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

**Fund Accounting**

The Council uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Council are divided into three categories: governmental, proprietary and fiduciary.

***Governmental Funds*** - The Council classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following is the Council's only governmental fund:

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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***General Fund*** - The General Fund is the operating fund of the Council and is used to account for all financial resources except those required to be accounted for in another fund.

***Proprietary Funds*** - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

***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 6 for additional information on the Liability, Fleet, and Property insurance pool.

***Medical Benefits Insurance 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 Council. See Note 6 for additional information on the Dental and Vision Benefits Program.

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

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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***Fiduciary Funds*** – These funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Council disburses these funds as directed by the individual, organization or other governments. The Council’s agency fund accounts for activity related to the Association of Educational Purchasing Agencies (AEPA).

**Measurement Focus**

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the Council are included on the statement of net position.

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about the Council finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-exchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Council, available means expected to be received within thirty days of year-end.

Nonexchange transactions are those, in which the Council receives value without directly giving equal value in return.



**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest and rebates.

***Deferred Inflows of Resources and Deferred Outflows of Resources*** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Council, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 4 and 5.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Council, deferred inflows of resources are pension and OPEB (See Note 4 and 5).

***Expense/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Budgetary Process**

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Board annually approves the budget for the Council. The budget includes an estimate of amounts expected to be received and expended (appropriations) by the Council during the fiscal year. Budget amendments are approved by the Board of Trustees during the year as required. The Council reserves (encumbers) appropriations when individual commitments are made. Encumbrances outstanding at fiscal year end are carried over, and need not be reappropriated.

**Cash and Investments**

To improve cash management, cash received by the Council is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the Council's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements. Investments with an original maturity of more than 90 days that are not made from the pool are reported as investments.

Investments are carried at fair value. Realized gains and losses are determined on the identified cost basis. Unrealized gains and (losses) are included as a component of investment earnings.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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The Council's investment policy authorizes the Program to invest in any investment meeting the requirements of the Ohio Revised Code. Permitted investments include obligations of the United States Government, or other investments where the principal and interest are collateralized by the full faith and credit of the United States Government, bonds or other obligations issued by any federal agency or instrumentality, and bonds of the State of Ohio and its political subdivisions.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Council has, by resolution, specified funds to receive an allocation of interest earnings. Investment earnings (including fair market value adjustments for investments) credited to the general fund during fiscal year 2018 amounted to a loss of \$(108,647), which includes \$(21,194) assigned from other Council funds.

**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 applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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**Property, Plant and Equipment**

Governmental capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund. The Council maintains a capitalization threshold of \$5,000. The Council has no property, plant or equipment.

**Compensated Absences**

Compensated absences of the Council consist of vacation leave and sick leave liabilities to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Council and the employee.

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, net pension liability and net OPEB liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**Claims Payable**

Provision for claims payable is based on information calculated by the TPA and the Council's actuary. This amount represents claims that have been processed but not yet presented for payment and an estimate of reported, unpaid claims, plus a provision for claims incurred but not reported. The Council believes this estimate of its liability for claims payable is reasonable and supported by valid actuarial calculations; however, actual incurred claim expense may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of claims may vary from the estimated amounts included in the accompanying financial statements.

Should the provisions for claims payable not be sufficient, the Council will utilize unrestricted net position to cover the excess claims. Future member contributions will be adjusted at the next renewal date, if necessary, to ensure adequate reserve coverage is maintained.

**Unearned Participant Contributions**

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

**Southwestern Ohio Educational Purchasing Council**

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*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**Pensions and Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense;(delete for cash basis) information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

**Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/transfers in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Council. These revenues represent Member premiums that are paid annually by participating entities and are recognized as revenue over the policy period. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the Council. Any revenues and expenses not meeting the definitions of operating are reported as non-operating.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At fiscal year-end, there was no net position restricted for enabling legislation.

The Council applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Council's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**Tax Status**

The Council is exempt from federal, state and local taxes due to the fact that it is defined as a council of governments under the Ohio Revised Code.

**ERISA**

Due to the Council being deemed a governmental plan by the Internal Revenue Service, it is not covered by the rules and regulations of ERISA, Title I.

**Implementation of New Accounting Principles and Restatement of Net Position**

For the fiscal year ended June 30, 2018, the Council has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Council.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Council's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Council.

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	Governmental Activities
Net Position, June 30, 2017	\$ 320,563
Adjustments:	
Net OPEB Liability	(516,770)
Deferred Outflow-Payments Subsequent to Measurement Date	0
Restated Net Position, July 1, 2017	<u>\$ (196,207)</u>

Other than employer contributions subsequent to the measurement date, the Council made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**NOTE 3 – 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.

Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**Investments**

The following is a summary of the Council's investments, including pooled investments, as of June 30, 2018:

Investment Type	Measurement Value	Percent of Total Investments	Maturities (in Years)		
			Less than 1 Year	1 - 3 Years	Greater Than 3 Years
Negotiable Certificate of Deposits	\$ 3,796,250	10.00%	\$ 2,388,115	\$ 1,408,135	\$ 0
Federal National Mortgage Association	8,257,155	21.74%	1,223,805	4,999,550	2,033,800
Federal Home Loan Mortgage Corporation	6,670,120	17.56%	1,105,072	1,555,831	4,009,217
Federal Home Loan Bank	11,807,153	31.09%	2,190,157	4,391,911	5,225,085
Federal Farm Credit Bank	7,446,800	19.61%	273,848	3,804,976	3,367,976
Total	<u>\$ 37,977,478</u>	<u>100.00%</u>	<u>\$ 7,180,997</u>	<u>\$ 16,160,403</u>	<u>\$ 14,636,078</u>

The Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Council's recurring fair value measurements as of June 30, 2018. The Council's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 inputs).

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*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from erosion of market value or change in market conditions, the Council's investment policy requires investments to mature no later than five years from the settlement date or on the date the invested funds are expected to be disbursed in satisfaction of an obligation of the Council, whichever is earlier.

*Credit Risk:* The Council's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal year 2018 the Council's investments in government agency securities were rated AA+ by S & P Global Ratings.

*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 4 – DEFINED BENEFIT PENSION PLAN**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Council's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Council's obligation for this liability to annually required payments. The Council cannot control benefit terms or the manner in which pensions are financed; however, the Council does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – Council non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.



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The Council's contractually required contribution to SERS was \$103,507 for fiscal year 2018. Of this amount, \$9,503 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Council's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS
Proportion of the Net Pension Liability:	
Current Measurement Date	0.02299040%
Prior Measurement Date	0.02000030%
Change in Proportionate Share	0.00299010%
Proportionate Share of the Net	
Pension Liability	\$ 1,373,626
Pension Expense	\$ 21,196

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Council's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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At June 30, 2018 the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>
<b>Deferred Outflows of Resources</b>	
Differences between Expected and	
Actual Experience	\$ 59,115
Changes of Assumptions	71,032
Changes in Proportion and Differences between	
Council Contributions and Proportionate	
Share of Contributions	185,758
Council Contributions Subsequent to the	
Measurement Date	103,507
<b>Total Deferred Outflows of Resources</b>	<u>\$ 419,412</u>
<b>Deferred Inflows of Resources</b>	
Net Difference between Projected and	
Actual Earnings on Pension Plan Investments	\$ 6,520
Changes in Proportion and Differences between	
Council Contributions and Proportionate	
Share of Contributions	6,857
<b>Total Deferred Inflows of Resources</b>	<u>\$ 13,377</u>

\$103,507 reported as deferred outflows of resources related to pension resulting from Council contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>
Fiscal Year Ending June 30:	
2019	\$ 125,641
2020	151,167
2021	57,742
2022	(32,022)
	<u>\$ 302,528</u>

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***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Council's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Council's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Council's Proportionate Share of the Net Pension Liability	\$ 1,906,235	\$ 1,373,626	\$ 927,456

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**NOTE 5 – DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Council’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the Council’s obligation for this liability to annually required payments. The Council cannot control benefit terms or the manner in which OPEB are financed; however, the Council does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Health Care Plan Description - The Council contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS’ Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS’ health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS’ health care coverage. Most retirees and dependents choosing SERS’ health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for

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its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$3,834 for fiscal year 2018.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Council's proportion of the net OPEB liability was based on the Council's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>
Proportion of the Net OPEB Liability	
Current Measurement Date	0.02087080%
Prior Measurement Date	<u>0.01812993%</u>
Change in Proportionate Share	<u><u>0.00274087%</u></u>
Proportionate Share of the Net OPEB Liability	\$ 560,117
OPEB Expense	\$ 47,935

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At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS
<b>Deferred Outflows of Resources</b>	
Changes in Proportionate Share and Differences between Council Contributions and Proportionate Share of Contributions	\$ 50,043
Council Contributions Subsequent to the Measurement Date	3,834
<b>Total Deferred Outflows of Resources</b>	<b>\$ 53,877</b>
<b>Deferred Inflows of Resources</b>	
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 1,479
Changes of Assumptions	53,152
<b>Total Deferred Inflows of Resources</b>	<b>\$ 54,631</b>

\$3,834 reported as deferred outflows of resources related to OPEB resulting from Council contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS
Fiscal Year Ending June 30:	
2019	\$ (1,496)
2020	(1,496)
2021	(1,227)
2022	(369)
	<b>\$ (4,588)</b>

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.



**Southwestern Ohio Educational Purchasing Council**

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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the Council's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

	1% Decrease <u>(2.63%)</u>	Current Discount Rate <u>(3.63%)</u>	1% Increase <u>(4.63%)</u>
Council's Proportionate Share of the Net OPEB Liability	\$ 676,413	\$ 560,117	\$ 467,982

  

	1% Decrease <u></u>	Current Trend Rate <u></u>	1% Increase <u></u>
Council's Proportionate Share of the Net OPEB Liability	\$ 454,493	\$ 560,117	\$ 699,913

**NOTE 6 – COUNCIL PROGRAMS AND CLAIMS RESERVE**

**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 51 entities participating in the LFP Program in fiscal year 2018. The LFP Program has chosen to adopt the forms and endorsements of conventional insurance coverage and to purchase specific and aggregate stop loss insurance in excess of a given retention to pay individual and collective losses. Therefore, the individual members are only responsible for their self-insured retention (deductible) amounts that may vary from member to member.

The LFP Program retained the first \$150,000 of each loss for general liability, automobile, crime and surety and property claims for fiscal year 2018 which is the same self-retained risk limit established for the prior year. Each member has a maintenance deductible of \$5,000 for property and crime claims, \$1,000 for automobile physical damage; \$3,500 per occurrence for boiler & machinery deductible; deductible for legal liability is \$10,000 per occurrence; and \$25,000 deductible per occurrence for pollution legal liability. Stop loss insurance is purchased for the Council and coverage amounts were established for claims in excess of \$1,112,755 and \$1,192,000 for fiscal year 2018 and 2017, respectively. Coverage for boiler and machinery, school board legal liability, as well as pollution legal liability are purchased outside of the LFP Program's retention program.

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

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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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 \$1,138,975 at June 30, 2018.

**Medical Benefits Pool**

The Self-Insured Medical Insurance Benefits Program (the Medical Program) provides group medical benefits for the employees of participating employers through a risk sharing (self-insurance) pool under two separate plan options: one administered by the Community Insurance Company (dba Anthem) and the other administered by United HealthCare Insurance Company. Claims submitted by covered employees are processed by the third party administrators (TPA), currently United HealthCare and Anthem, in accordance with the benefits negotiated by the participating member school districts of the Medical Program. Payments of these claims are settled by the contributions collected and maintained by the Medical Program and, therefore, the majority of the claim risk remains with the Medical Program.

At June 30, 2018 the United HealthCare plan option had 28 participating member school districts with approximately 6,000 covered employees. The Anthem plan option had 67 participating member school districts with approximately 11,000 covered employees.

Participating member school districts contribute an amount that is determined by the number of eligible employees and dependents for that month multiplied by funding amounts established by the Medical Program at the October 1 renewal date. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. Benefit levels are determined by the participating member school districts in consultation with the Medical Program.

The Medical Program has purchased stop-loss insurance to help minimize its total risk exposure. Stop-loss insurance limits were set at \$660,000 specific claims expected for Anthem and United HealthCare, for fiscal year 2018. 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 \$18,684,000 at June 30, 2018.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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The Medical 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 Medical Program collects and remits the flat rate, monthly policy premium to Sun Life Insurance Company for the participating districts. As of June 30, 2018 there were 81 participating districts in the program covering approximately 21,000 employees.

**Dental and Vision Benefits Pool**

The Self-Insured Dental and Vision Benefits Program (Dental Program) provides dental and vision insurance coverage for employees of participating employers through a risk sharing (self-insurance) pool. Individual benefit coverage limits are set by negotiations between the Dental Program and the participating school districts. With the relatively low individual benefit levels, the Dental Program does not have stop-loss insurance coverage for its dental or vision plans.

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

Participating member school districts contribute an amount that is determined by the number of eligible employees and dependents for that month multiplied by funding amounts established at the renewal date for each plan, which is October 1 for both plans. The funding amounts are based on claim experience, claims administration expenses, and needed reserve amounts. Every other year school districts are reassessed individually to ensure contributions are in line with average claim costs encountered over the previous two years. Historically, in the off year, all participating school districts have received the same renewal percentage change.

As of June 30, 2018, the dental coverage there was 69 participating member school districts covering approximately 14,000 eligible employees and their dependents. Vision coverage was offered by 69 participating member school districts with approximately 9,700 covered employees and dependents.

The Dental Program annually establishes a provision for claims payable based on information calculated by the TPA and the Medical Program's actuary. This amount represents claims that have been processed but not yet presented for payment and an estimate of reported, unpaid claims, plus a provision for claims incurred but not yet reported. The liabilities established for future claim payments were \$772,000 at June 30, 2018.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

As discussed in Note 2, the Council establishes a reserve for claims payable which includes both reported and incurred but unreported reported claims. The changes in the reserve for claims payable for the last two fiscal years are as follows:

Liability Year	Beginning of Year Liability	Current Year Claims	Claim Payments	End of Year Liability
<b>Liability, Property and Fleet Insurance</b>				
2018	\$ 1,219,481	\$ 2,589,970	\$ (2,670,656)	\$ 1,138,795
2017	1,142,523	2,727,079	(2,650,121)	1,219,481
<b>Medical Benefits</b>				
2018	\$ 17,600,000	\$ 259,094,558	\$ (258,010,558)	\$ 18,684,000
2017	12,086,000	220,649,092	(215,135,092)	17,600,000
<b>Dental and Vision Benefits</b>				
2018	\$ 629,000	\$ 13,431,066	\$ (13,288,066)	\$ 772,000
2017	632,000	12,127,564	(12,130,564)	629,000

**NOTE 7 – LONG TERM OBLIGATIONS**

During the fiscal year 2018, the following changes occurred in governmental activities long-term obligations.

	Restated Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amount Due Within One Year
<b>Governmental Activities:</b>					
<b>Net Pension/OPEB Liability:</b>					
Pension	\$ 1,463,837	\$ 0	\$ 90,211	\$ 1,373,626	\$ 0
OPEB	516,770	43,347	0	560,117	0
<b>Total Net Pension /OPEB Liability</b>	<u>1,980,607</u>	<u>43,347</u>	<u>90,211</u>	<u>1,933,743</u>	<u>0</u>
<b>Other Long-Term Liabilities:</b>					
Compensated Absences	88,113	69,978	56,271	101,820	65,614
<b>Total Long Term Liabilities</b>	<u>\$ 2,068,720</u>	<u>\$ 113,325</u>	<u>\$ 146,482</u>	<u>\$ 2,035,563</u>	<u>\$ 65,614</u>

*Compensated Absences:* Compensated absences will be paid from the fund from which the employee's salary is paid which, for the Council, is the general fund.

*Net Pension/OPEB Liability:* There is no repayment schedule for the net pension/OPEB liability however, employer pension is primarily made from the general fund. For additional information related to net pension/OPEB liability see Notes 4 and 5.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 8 – RISK MANAGEMENT**

The Council has obtained commercial insurance for the following risks:

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

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

**NOTE 9 – OPERATING LEASE**

The Council (the “Lessee”) has an operating lease with 303 Corporate Center LLC, Vandalia, Ohio (the “Lessor”) for office space. The Council signed a new lease for a five year period commencing on January 1, 2015 and ending on December 31, 2020. Lease payments for fiscal year 2018 amounted to \$72,263 for the operating lease.

The base rent shall be \$6,022 per month for a period of 60 months beginning July 1, 2015 through December 30, 2020. The Council after the initial term has the right to lease on a month to month basis. The lease can be terminated by 30 days written notice to the Lessor.

The future minimum payments for this lease is as follows:

Fiscal Year ending June 30:		
2019	\$	72,264
2020		72,264
2021		36,132

**NOTE 10 – CONTINGENCIES - 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.

**Southwestern Ohio Educational Purchasing Council**

**Montgomery County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 11 – JOINTLY GOVERNED ORGANIZATION**

The Council is a participant in META Solutions which was created through a merger between Tri-Rivers Education Computer Association (TRECA) and Metropolitan Educational Council (MEC). This organization is a comprehensive educational solutions provider comprised of over 400 school districts, libraries and other public organizations. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school Councils. During fiscal year 2018, the Council paid \$6,785 to META Solutions for various services. Financial information can be obtained from META Solutions, 100 Executive Drive, Marion, Ohio 43302.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Council's Proportionate Share of the Net Pension Liability*  
*Last Five Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>School Employees Retirement System (SERS)</i></b>					
Council's Proportion of the Net Pension Liability	0.02299040%	0.02000030%	0.01817580%	0.01860500%	0.01860500%
Council's Proportionate Share of the Net Pension Liability	\$ 1,373,626	\$ 1,463,837	\$ 1,037,129	\$ 941,588	\$ 1,106,380
Council's Covered Payroll	\$ 770,471	\$ 696,629	\$ 581,222	\$ 636,068	\$ 481,358
Council's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.28%	210.13%	178.44%	148.03%	229.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.



**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Council's Contributions - Pension*  
*Last Six Fiscal Years (1)*

<i>School Employees Retirement System (SERS)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 103,507	\$ 107,866	\$ 97,528	\$ 76,605	\$ 88,159	\$ 66,620
Contributions in Relation to the Contractually Required Contribution	<u>(103,507)</u>	<u>(107,866)</u>	<u>(97,528)</u>	<u>(76,605)</u>	<u>(88,159)</u>	<u>(66,620)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Council's Covered Payroll	\$ 766,719	\$ 770,471	\$ 696,629	\$ 581,222	\$ 636,068	\$ 481,358
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2013 is not available

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Council's Proportionate Share of the Net OPEB Liability*  
*Last Two Fiscal Years (1)*

<i>School Employees Retirement System (SERS)</i>	<u>2018</u>	<u>2017</u>
Council's Proportion of the Net OPEB Liability	0.02087080%	0.01812993%
Council's Proportionate Share of the Net OPEB Liability	\$ 560,117	\$ 516,770
Council's Covered Payroll	\$ 770,471	\$ 696,629
Council's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	72.70%	74.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Council's Contributions - OPEB*  
*Last Six Fiscal Years (1)*

<i>School Employees Retirement System (SERS)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 3,834	\$ 0	\$ 0	\$ 4,766	\$ 890	\$ 770
Contributions in Relation to the Contractually Required Contribution	<u>(3,834)</u>	<u>0</u>	<u>0</u>	<u>(4,766)</u>	<u>(890)</u>	<u>(770)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Council's Covered Payroll	\$ 766,719	\$ 770,471	\$ 696,629	\$ 581,222	\$ 636,068	\$ 481,358
OPEB Contributions as a Percentage of Covered Payroll	0.50%	0.00%	0.00%	0.82%	0.14%	0.16%

(1) Information prior to 2013 not available

**Southwestern Ohio Educational Purchasing Council**  
**Montgomery County, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 1 - Net Pension Liability**

***Changes in Assumptions - SERS***

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
  - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

***Changes in Benefit Terms - SERS***

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S  
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM**

**Montgomery County, Ohio**

Reconciliation of Claims Liabilities by Type of Contract  
Years Ended June 30, 2018 and 2017

	Fiscal Year 2018		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	\$ 715,213	\$ 504,268	\$ 1,219,481
Incurred claims and claim adjustments:			
Provision for insured events of the current year	538,094	279,833	817,927
Change in provision for insured events of prior year	1,165,783	606,260	1,772,043
Total incurred claims and claim adjustments	1,703,877	886,093	2,589,970
Payments:			
Claim payments attributable to claims of current year	175,554	120,127	295,681
Claim payments attributable to claims of prior years	1,562,437	812,538	2,374,975
Total payments	1,737,991	932,665	2,670,656
Claims payable - end of year	\$ 681,099	\$ 457,696	\$ 1,138,795
	Fiscal Year 2017		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	\$ 622,646	\$ 519,877	\$ 1,142,523
Incurred claims and claim adjustments:			
Provision for insured events of the current year	534,386	350,500	884,886
Change in provision for insured events of prior year	1,112,507	729,686	1,842,193
Total incurred claims and claim adjustments	1,646,893	1,080,186	2,727,079
Payments:			
Claim payments attributable to claims of current year	118,046	153,749	271,795
Claim payments attributable to claims of prior years	1,436,280	942,046	2,378,326
Total payments	1,554,326	1,095,795	2,650,121
Claims payable - end of year	\$ 715,213	\$ 504,268	\$ 1,219,481

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL'S  
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM**

**Montgomery County, Ohio**

Schedule of Claims Development

Last Ten Fiscal Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. Required contribution and investment revenue:										
Earned (paid contributions) and interest	3,574,372	3,696,495	3,828,699	3,809,555	3,578,824	3,224,784	2,636,981	2,521,236	2,209,885	2,019,953
Ceded (excess insurance)	(1,902,023)	(1,993,914)	(2,090,023)	(2,129,961)	(2,051,216)	(1,782,746)	(1,428,597)	(1,473,369)	(1,187,407)	(1,063,466)
Net earned	1,672,349	1,702,581	1,738,676	1,679,594	1,527,608	1,442,038	1,208,384	1,047,867	1,022,478	956,487
2. Unallocated expenses:	363,644	368,055	335,385	390,904	486,702	468,010	418,683	473,774	340,247	338,801
3. Estimated claims and expenses, end of fiscal year:										
Incurred	687,947	2,727,079	859,431	1,641,103	1,490,713	1,197,920	1,188,042	1,178,887	848,794	2,123,088
Ceded	0	0	0	(356,302)	(111,536)	0	(52,042)	(54,390)	0	(1,078,238)
Net Incurred	687,947	2,727,079	859,431	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850
4. Net paid claims as of:										
End of fiscal year	768,633	406,153	479,960	931,911	936,088	946,682	1,064,996	1,080,258	752,183	1,525,661
One year later		2,650,121	353,108	390,003	483,244	175,084	167,001	197,649	124,610	832,273
Two years later			445,707	824,860	622,838	467,490	656,406	639,379	551,892	1,329,120
Three years later				843,177	806,494	810,864	959,767	766,057	627,816	1,303,240
Four years later					826,179	844,810	1,024,233	885,289	752,183	1,045,574
Five years later						946,682	1,041,883	991,168	752,183	1,054,253
Six years later							1,065,590	1,080,258	752,183	1,051,995
Seven years later								1,080,258	752,183	1,042,650
Eight years later									752,183	1,042,650
Nine years later										1,525,661
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	687,947	702,842	646,812	1,003,924	1,022,878	946,682	1,064,096	1,080,258	752,183	1,042,650
One year later		2,727,079	859,431	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850
Two years later			723,518	1,147,165	947,232	887,709	1,107,276	1,124,497	991,091	1,044,850
Three years later				1,032,138	949,421	935,498	1,125,198	1,093,498	926,413	1,044,850
Four years later					974,931	966,950	1,130,436	1,083,432	824,275	1,044,850
Five years later						946,682	1,100,057	1,118,744	752,183	1,044,850
Six years later							1,065,590	1,080,258	752,183	1,044,850
Seven years later								1,080,258	752,183	1,044,850
Eight years later									752,183	1,042,650
Nine years later										1,042,650
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:		(2,024,237)	(76,706)	(28,214)	47,947	-	(1,494)	-	-	-

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

Montgomery County, Ohio  
Schedule of Claims Development  
For the Last Ten Fiscal Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. Required medical contributions and other revenues:										
Medical Contributions:										
Earned (paid contributions)	\$ 245,413,619	\$ 214,711,970	\$ 184,365,769	\$ 162,618,485	\$ 144,815,983	\$ 132,033,562	\$ 127,703,768	\$ 114,086,105	\$ 101,210,513	\$ 96,125,065
Ceded (excess insurance)	(910,979)	(2,149,701)	(440,080)	(1,658,587)	(1,552,012)	(1,648,570)	(1,594,508)	(1,429,535)	(1,166,122)	(1,038,691)
Net medical contributions earned	244,502,640	212,562,269	183,925,689	160,959,898	143,263,971	130,384,992	126,109,260	112,656,570	100,044,391	95,086,374
Prescription rebates	11,420,110	7,830,776	4,610,840	3,440,422	2,905,661	2,618,090	2,253,695	1,609,235	1,254,847	1,106,996
Investment revenue and other revenues	60,197	(2,391)	213,220	165,126	45,661	184,071	127,005	252,491	229,841	744,928
Total medical contributions and other revenues	255,982,947	220,390,654	188,749,749	164,565,446	146,215,293	133,187,153	128,489,960	114,518,296	101,529,079	96,938,298
2. Unallocated expenses:	16,309,468	15,464,228	14,344,706	10,842,500	8,465,803	8,424,833	7,713,628	7,596,840	6,071,660	5,368,800
3. Estimated claims and expenses, end of fiscal year:										
Incurred	259,094,558	220,649,092	165,222,306	147,220,409	129,225,797	121,758,266	122,930,887	105,597,426	102,793,724	93,940,399
Ceded	-	-	(822,063)	(574,200)	0	(784,819)	(387,558)	(54,679)	(3,034,703)	(540,535)
Net Incurred	259,094,558	220,649,092	164,400,243	146,646,209	129,225,797	120,973,447	122,543,329	105,542,747	99,759,021	93,399,864
4. Net paid claims as of:										
End of fiscal year	258,010,558	199,439,307	152,962,769	137,194,877	118,884,214	111,374,487	115,750,564	98,539,275	91,762,961	84,825,860
One year later		199,439,307	152,962,769	137,194,877	118,884,214	111,374,487	115,750,564	98,539,275	91,762,961	84,825,860
Two years later			168,658,554	148,388,351	128,558,962	120,508,218	123,761,588	105,329,431	98,516,491	92,633,525
Three years later				148,388,351	129,225,797	120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Four years later					129,225,797	120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Five years later						120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Six years later							123,761,588	105,542,747	99,759,021	93,399,864
Seven years later								105,542,747	99,759,021	93,399,864
Eight years later									99,759,021	93,399,864
Nine years later										93,399,864
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	259,094,558	220,649,092	164,400,243	146,646,209	129,225,797	120,973,447	122,543,329	105,542,747	99,759,021	93,399,864
One year later	0	220,649,092	164,400,243	146,646,209	129,225,797	120,973,447	122,543,329	105,542,747	99,759,021	93,399,864
Two years later			168,658,554	148,388,351	129,225,797	120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Three years later				148,388,351	129,225,797	120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Four years later					129,225,797	120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Five years later						120,973,447	123,761,588	105,542,747	99,759,021	93,399,864
Six years later							123,761,588	105,542,747	99,759,021	93,399,864
Seven years later								105,542,747	99,759,021	93,399,864
Eight years later									99,759,021	93,399,864
Nine years later										93,399,864
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year: (A)	0	0	4,258,311	1,742,142	0	0	1,218,259	0	0	0

**Notes:**

(A) Due to the nature of health claims, it is highly unlikely that any significant claim amount would remain unpaid at the end of the subsequent fiscal year. Therefore, there is no component included in the IBNR calculation for changes in prior years estimated claims and expenses.

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

Montgomery County, Ohio  
Schedule of Claims Development  
Last Ten Fiscal Years Ending on June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. Required contribution and investment revenue:										
Contributions:										
Earned (paid contributions)	\$ 14,198,622	\$ 12,635,587	\$ 10,280,742	\$ 8,273,693	7,720,291	\$ 7,343,646	\$ 7,158,318	\$ 7,077,693	\$ 6,675,194	\$ 6,502,606
Ceded (excess insurance) (A)	0	0	0	0	0	0	0	0	0	0
Net earned	14,198,622	12,635,587	10,280,742	8,273,693	7,720,291	7,343,646	7,158,318	7,077,693	6,675,194	6,502,606
Investment revenue	8,289	(21,24)	151	181	189	104	296	99	7,062	25,786
Total contribution and investment revenue	14,206,911	12,633,463	10,280,893	8,273,874	7,720,480	7,343,750	7,158,614	7,077,792	6,682,256	6,528,392
2. Unallocated expenses:	842,219	836,069	670,137	579,878	561,313	525,293	499,087	476,358	428,747	375,625
3. Estimated claims and expenses, end of fiscal year:										
Incurred	13,431,066	12,127,564	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324
Ceded (A)	0	0	0	0	0	0	0	0	0	0
Net Incurred	13,431,066	12,127,564	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324
4. Net paid claims as of:										
End of fiscal year	13,288,066	11,982,870	9,125,780	7,273,593	6,726,616	6,621,117	6,448,311	6,681,405	5,938,084	5,817,920
One year later		11,982,870	9,125,780	7,273,593	6,726,616	6,621,117	6,448,311	6,681,405	5,938,084	5,817,920
Two years later			9,273,474	7,147,909	6,991,632	6,878,589	6,721,783	7,016,378	6,235,085	6,213,253
Three years later				7,467,925	6,966,225	6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Four years later					6,966,225	6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Five years later						6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Six years later							6,721,783	7,016,378	6,319,830	6,213,253
Seven years later								7,016,378	6,319,830	6,213,253
Eight years later									6,319,830	6,213,253
Nine years later										6,213,253
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	13,431,066	12,127,564	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324
One year later		12,127,564	9,131,096	7,593,609	6,966,225	6,901,589	6,776,968	6,932,797	6,319,830	6,201,324
Two years later			9,273,474	7,467,925	6,966,225	6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Three years later				7,467,925	6,966,225	6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Four years later					6,966,225	6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Five years later						6,878,589	6,721,783	7,016,378	6,319,830	6,213,253
Six years later							6,721,783	7,016,378	6,319,830	6,213,253
Seven years later								7,016,378	6,319,830	6,213,253
Eight years later									6,319,830	6,213,253
Nine years later										6,213,253
6. Increase/(decrease) in estimated incurred claims and expenses from end of policy year: (B)	0	0	142,378	(125,684)	0	(23,000)	(55,185)	83,581	0	11,929

**Note:**

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

(B) Due to the nature of the claims, it is highly unlikely that any significant claim amount would remain unpaid at the end of the subsequent fiscal year. Therefore, there is no component included in the IBNR calculation for changes in prior years estimated claims and expenses.



December 5, 2018

To the Executive Board  
Southwestern Ohio Educational Purchasing Council  
303 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio (the "Council") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated December 5, 2018, wherein we noted the Council restated the net position balance for governmental activities to account for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Lima, Ohio



# Dave Yost • Auditor of State

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 10, 2019**