

Attachment 1
REQUIREMENTS FOR
FEDERAL FISCAL YEAR 2009
AUDITED FINANCIAL STATEMENTS

[Option 2 Carriers Only]

For the period October 1, 2008 – September 30, 2009

REQUIREMENTS FOR FEDERAL FISCAL YEAR 2009 REPORTING
[for Carriers that have Selected Option 2]

A. AUDITED FINANCIAL STATEMENTS – Audited financial statements for the period ending September 30, 2009 and 2008. These are special purpose financial statements prepared in accordance with the requirements in this document, which represent a comprehensive basis of accounting other than generally accepted accounting principles. The individual financial statements required are a:

- ❖ Summary Statement of FEHBP Financial Operations
- ❖ Balance Sheet
- ❖ Statement of Cash Flows

B. ADDITIONAL REPORTING REQUIREMENTS [for carriers with Primary Audit Coverage]

- ❖ Report on compliance with laws, regulations and internal controls
- ❖ Report on the application of agreed-upon procedures
- ❖ Corrective action plan

Note: To assist in the preparation of their financial statements, OPM will provide each carrier with a *Report of Letter of Credit Account (LOCA) Activity* soon after September 30, 2009. Carriers must immediately upon receipt compare the information on the *Report of Letter of Credit Account Activity* to their internal records and notify Melanese Wynn of the Trust Funds Group at (202) 606-4498 of any differences.

Instructions for Preparing

The SUMMARY STATEMENT OF FEHBP FINANCIAL OPERATIONS

Round all amounts to the nearest whole dollar and ensure they add to the totals.

1) PROGRAM INCOME:

a) Letter of Credit Authorizations:

- 1) Semimonthly Premiums: Show the Semimonthly Premiums for LOCA authorizations as reported on the Report of Letter of Credit Account Activity.
- 2) Interest: Show the interest earned on LOCA authorizations as reported on the Report of Letter of Credit Account Activity.

b) Accrued Income 09/30:

- (1) Semimonthly Premiums: Show the accrued Semimonthly Premiums for the previous fiscal year (FY) as reported on the Report of Letter of Credit Account Activity.
- (2) Interest: Show the accrued interest earned due the LOCA for the previous FY as reported on the Report of Letter of Credit Account Activity.

c) Accrued Income 09/30:

- (1) Semimonthly Premiums: Show the accrued Semimonthly Premiums for the current FY as reported on the Report of Letter of Credit Account Activity.
- (2) Interest: Show the accrued Interest earned due the LOCA for the current FY as reported on the Report of Letter of Credit Account Activity.

d) Total Program Income: The sum of Lines 1a through 1c.

e) Carrier Interest Income: Your contract states that all funds in excess of those needed to promptly discharge the obligations of the contract should be invested. Report all interest earned on these funds on line 1e. Do not report interest earned on your LOCA on this line.

f) Total Carrier Income: Line 1d plus Line 1e.

2) HEALTH BENEFITS CHARGES:

a) Paid: Show the amount of cash payments for health benefit charges for the current FY.

b) Accrued but Unpaid:

- 1) Beginning: Line 2 of the Report of Letter of Credit Account Activity shows the ending health benefits accrual reported on your September 30 FY accounting statement. Show this figure on Line 2b(1). Attach a schedule showing the monthly liquidation of the September 30 accrual.
- 2) Ending: Show the charges incurred but unpaid as of September 30. Attach a schedule showing the development of the unreported health benefit charges. All

assumptions, judgment factors and estimates should be supported and all sources of data identified.

c) Total Health Benefit Charges: Line 2a minus line 2b(1) plus line 2b(2).

3) ADMINISTRATIVE EXPENSES: If your plan has high and standard options, show the basis and amounts used for prorating administrative expenses between the two options. All reported administrative expenses must be within your allowable contract limit.

a) Paid: The cash payments for administrative expenses during FY. Should agree with the amount stated on the Statement of Cash Flows.

b) Accrued but Unpaid:

1) Beginning: Show on Line 3b(1) the amount of the accrued administrative expenses as shown on your prior FY accounting statement.

2) Ending: Show on line 3b(2) the amount of accrued administrative expenses as of September 30.

c) Total Administrative Expenses: Line 3a minus line 3b(1) plus line 3b(2).

4) OTHER EXPENSES AND RETENTIONS:

a) State Statutory Reserve: Report the amount necessary to satisfy state requirements for mandatory statutory reserves for the current FY. Attach a schedule showing in detail the development of the charges or credits for this retention.

b) Reinsurance Expenses: List the amount paid for reinsurance expenses (if applicable) for the current FY.

c) Service Charge: Show on Line 4c, 25 percent of the formula derived contract limitation for the prior calendar year (CY) plus 75 percent of the allowable service charge for the current CY.

d) Accrued Other Expenses and Retentions: Other expenses not previously stated.

e) Total Other Expenses and Retentions: The sum of Lines 4a through 4d.

5) CHANGES TO SPECIAL RESERVE:

- a) Special Reserve, 09/30: The amount of the prior FY accounting statement ending Special Reserve (Line 3 of Report of Letter of Credit Account Activity).
- b) Gain (Loss) on Operations: This is calculated as follows: (Line 1f)-(line 2c)-(line 3c)-(line 4e).
- c) Prior Period Adjustments: All adjustments made to the current FY report as a result of prior OPM audits or due to any other reasons. These adjustments should also be included in your annual accounting Statement of December 31.
- d) Contingency Reserve Payments: Show the amount transferred from the contingency reserve to your LOC account during the current FY. (Line 4d(1) of Report of Letter of Credit Account Activity)
- e) Return of Excess Reserves: Show the amount of excess reserves withdrawn from your LOC account and transferred to the contingency reserve during the current FY. (Line 4d(2) of Report of Letter of Credit Account Activity)
- f) Other: Show on line 5f any transfers or other additions or subtractions to the special reserve during the current fiscal year.
- g) Special Reserve, Ending: The sum of Lines 5a through 5f.

Instructions for Preparing The FEHBP BALANCE SHEET

Provide a consolidated Balance Sheet for the plan that incorporates the financial activity and results of an underwriter, if applicable, and the organization. In applicable, provide separate Balance Sheets for each entity and, if applicable, for the high and standard options of your plan.

ASSETS

Cash and Cash Equivalents - The ending cash and cash equivalents balance as shown on the Consolidated Statement of FEHBP Cash Flows and other related schedules.

Investments - Include debt or equity instruments that do not meet the definition of cash and cash equivalents. In addition, Carriers are required to submit a supporting schedule for their investments showing what type of investment is held by amount.

Balance in Letter of Credit Account - The balance in the LOCA account as of September 30. This should agree with line 4e of the *Report of Letter of Credit Account Activity*.

Interest Income Receivable - All accrued interest income from bank accounts or short-term investments as of September 30, but not accrued interest due the LOCA.

Program Income Receivable - The accrued semi-monthly premiums due to the LOCA and accrued interest, due to the LOCA. These balances are provided on your *Report of Letter of Credit Account Activity*.

Due for Treasury Offset - The amount due the Program as a result of actions by the U.S. Treasury to reduce or “offset” draw-downs from your LOCA.

Other (Includes Prepaid Expense) - OPM may require a break-out, if in its judgment this balance is material.

LIABILITIES

Health Benefits Accrued but Unpaid - The health benefits charges accrued but unpaid, breaking-out charges that have been incurred but not received (IBNR) in a note, if feasible.

Accrued Administrative Expenses and Retentions - The total accrued administrative expenses and retentions as of September 30.

Due to OPM for Audit Findings - The total billed to the carrier by OPM to resolve audit findings.

Other Accrued Liabilities – Show all other accrued liabilities not previously listed. OPM may require a break-out, if in its judgment this balance is material.

Special Reserve - The Special Reserve equals Total Assets less Health Benefits Accrued but Unpaid, Accrued Administrative Expenses and Retentions, Due to OPM for Audit Findings, and Other Liabilities.

Carrier Name _____ Code _____

**FEHBP BALANCE SHEET
SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and Cash Equivalents	\$	\$
Investments	\$	\$
Balance in Letter of Credit Account		
Interest Income Receivable		
Program Income Receivable		
Due for Treasury Offsets		
Other		
TOTAL ASSETS	\$	\$
LIABILITIES		
Health Benefits Accrued but Unpaid	\$	\$
Accrued Administrative Expenses and Retentions		
Due to OPM for Audit Findings		
Other Accrued Liabilities		
Special Reserve		
TOTAL LIABILITIES WITH SPECIAL RESERVE	\$	\$

**Instructions for Preparing
The FEHBP STATEMENT OF CASH FLOWS**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Gain (Loss) from Operations: Show the net gain or (loss) from Operations as reported on the Statement of Operations.

Adjustments to Reconcile Net Gain (Loss) to Net Cash Provided by (used in) Operating Activities: Prior Period adjustments and other adjustments as shown on the Statement of Operations Contingency Reserve Payments (Withdrawal of Excess Reserves).

(Increase) Decrease in Assets: Show the (Increase) Decrease in Assets from the previous fiscal year in the categories specified.

Increase (Decrease) in Liabilities: Show the Increase (Decrease) in Liabilities from the previous fiscal year in the categories specified.

Net Cash Provided by Operating Activities: The total net gain or (loss) plus total adjustments.

CASH FLOWS FROM INVESTMENT ACTIVITIES

Proceeds from Sale of Investments: Present the sum of proceeds received from the sale of FEHBP investments.

Net Cash Provided by Investing Activities: Proceeds from the sale of investments plus non-LOC interest income minus payments for purchase of investments.

NET INCREASE IN CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at Beginning of Year: From the prior FY FEHBP Balance Sheet.

Cash and Cash Equivalents at End of Year: From the current FY FEHBP Balance Sheet.

Carrier: _____ Code: _____

**FEHBP STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDING
SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Gain (Loss)	\$	\$
Adjustments to Reconcile Net Gain (Loss) to Net Cash Provided by (used in) Operating Activities:		
(Increase) Decrease in Assets:	\$	\$
Letter of Credit Account		
Program Income Receivable		
Interest Income Receivable		
Due for Treasury Offsets		
Other		
Increase (Decrease) in Liabilities:	\$	\$
Health Benefits Charges Accrued but Unpaid		
Accrued Administrative Expenses		
Accrued Service Charge		
Other Accrued Liabilities		
Total Adjustments	\$	\$
Net cash provided by operating activities	\$	\$
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from Sale of Investments	\$	\$
Net Cash Provided by Investing Activities	\$	\$
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at the Beginning of Year	\$	\$
Cash and Cash Equivalents at the End of Year	\$	\$