Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program

Basic Financial Statements

June 30, 2008

(with Independent Auditors' Report)

Mary Taylor, CPA
Auditor of State

Council Members
Southwestern Ohio Educational Purchasing Council's Liability,
Fleet and Property Insurance Program
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

We have reviewed the *Independent Auditors' Report* of the Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 to June 30, 2008. 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's Liability, Fleet and Property Insurance Program is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 3, 2009

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INDEPENDENT AUDITORS' REPORT

Committee Members
Southwestern Ohio Educational Purchasing Council
- Liability, Fleet and Property Insurance Program
Vandalia, Ohio

We have audited the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Liability, Fleet and Property Insurance Program and do not purport to, and do not, present fairly the financial position of the Southwestern Ohio Educational Purchasing Council as of June 30, 2008 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liability, Fleet and Property Insurance Program of the Southwestern Ohio Educational Purchasing Council as of June 30, 2008, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2009, on our consideration of the Program'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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 3-6), the Schedule of Claims Development (page 18), and the Reconciliation of Claims Liabilities by Type of Contract (page 19) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 8, 2009

The discussion and analysis of Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program (the Program) financial performance provides an overall review of the financial activities for the year ended June 30, 2008. 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.

<u>The Program:</u>

The Program is a function of the Southwestern Ohio Educational Purchasing Council (the Council), which is a duly organized and existing Regional Council of Governments formed under the auspices of Chapter 167 of the Ohio Revised Code, which allows it to perform any function or duty performable by its member school districts. The financial activity of the Program is accounted for in a separate enterprise fund in the financial records of the Council.

Established in July 2003, under Section 2744.081 of the Ohio Revised Code, the Program was formed for the public purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Program are school districts located in the State of Ohio which are eligible to participate under applicable statute, ruling or law subject to certain underwriting standards as deemed appropriate by the Program and its administrator. For the year ended June 30, 2008, the Program had 34 participating member school districts.

<u>Basic Financial Statements and Presentation:</u>

The financial statements presented by the Program are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements are presented using the accrual basis of accounting. Revenues are recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. The Program is structured with one enterprise fund.

<u>The Statement of Net Assets:</u>

The Statement of Net Assets presents information on all of the Program's assets and liabilities. Assets consist mainly of cash, cash equivalents, and investments. Liabilities consist of reserves for claims payable and unearned participant contributions.

During 2008, the Program moved more of its monies to investment vehicles to provide a higher rate of return. As a result, the cash and cash equivalents at June 30, 2008 decreased by $27,451 while the amount of total investments increased by $440,474. While maintaining funds in very conservative and safe investments, the Program did invest in longer term securities during fiscal year 2008 to improve yield. This resulted in investments being classified as non-current for 2008 compared with current (due within one year) investments at the end of the prior year. The decrease in other assets at June 30, 2008 compared with the prior year is due to lower reinsurance receivables at year-end compared with the prior year.

Liabilities associated with reserve for claims payable represent 94.7 percent of the Program's total liabilities reported at June 30, 2008 compared to 99.8 percent one year prior. During fiscal year 2008, the Program recognized $45,432 of unearned member premiums for payments received in the current year of subsequent year premiums. There were no such liabilities noted during the prior year. The reserve for claims payable increased by $376,556 or 54.2 percent compared with the amount reported for the prior year. The reserve for claims payable are liabilities carried for net unpaid claims, both reported and incurred but unreported existing at the end of the fiscal year. The reserve for claims payable is established annually with the assistance of an outside actuary based on statistical models. The increase in the reserve for claims payable for fiscal year 2008 is attributable to the increase in the amount of risk retain by the program for fiscal year 2008 compared to the amounts retained in the prior year. In fiscal year 2008, the Program retained the first $250,000 of each loss for property and liability coverage compared with a $100,000 retention limit per loss in fiscal year 2007. Furthermore, the amount at which the aggregate stop-loss insurance policy begins was raised to $940,380 in during the fiscal year compared to $780,000 limit set in the prior year.

Table 1 provides a summary of the Program's net assets for fiscal years 2008 and 2007.

TABLE 1
NET ASSETS

	2008	2007
Assets:		
Current Assets:		
Cash and cash equivalents	$ 453,979	$ 481,430
Investments	-	997,859
Other assets	47,330	76,410
Non-Current Assets:		
Investments	1,438,333	-
Total Assets	1,939,642	1,555,699
Liabilities:		
Current Liabilities:		
Reserve for claims payable	1,071,674	695,118
Other liabilities	59,885	1,380
Total Liabilities	1,131,559	696,498
Net Assets:		
Unrestricted	808,083	859,201
Total Net Assets	$ 808,083	$ 859,201

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

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Program's net assets changed during the year. During 2006, the Program reported a decrease in net assets of $51,118 or 6.0 percent of the total net assets reported for June 30, 2007. With the necessary reserve, as determined by the actuary, included as a liability, the unrestricted net assets totaled $808,083 at year end or approximately 36.8 percent of the Program's operating expenses reported for year. With the necessary reserves established to meet any unexpected expenses, the Program made the decision to return $93,831 of premiums to qualifying participating districts during the year.

Table 2 shows the changes in net assets for the year ended June 30, 2008, as well as revenue and expense comparisons to fiscal year 2007.

TABLE 2
CHANGES IN NET ASSETS

	2008	2007
Operating Revenues:		
Member premiums	$ 2,035,336	$ 2,176,475
Total Operating Revenues	2,035,336	2,176,475
Operating Expenses:		
Claims expense	1,944,068	1,735,812
Program administrator fees	164,809	160,000
Claims processing fees and expenses	55,100	57,903
Other operating expenses	30,670	22,503
Total Operating Expenses	2,194,647	1,976,218
Operating Income	(159,311)	200,257
Non-Operating Revenues:		
Interest earnings	108,193	89,738
Change in Net Assets	(51,118)	289,995
Net Assets at Beginning of Year	859,201	569,206
Net Assets at End of Year	$ 808,083	$ 859,201

As shown in table 2, member premiums decreased nearly 6.5 percent for fiscal year 2008 compared with the prior year. The majority of this decrease was due to the Program's decision to return $93,831 of premiums to participating districts during the year. In addition, the overall premium rates for fiscal year 2008 were slightly less than the prior year due to reduction in stop-loss and excess insurance premiums. The claims expense for fiscal year 2008 was 12.0 percent higher than the prior year due to the as the Program continued to increase the limit at which stop-loss insurance begins. That limit was increased to $940,380 for fiscal year 2008 compared with the $780,000 for the prior year. Other expenses remained consistent with those reported for fiscal year 2007.

The Statement of Cash Flows:

The Statement of Cash Flows allows the reader of the financial statements to assess the Program's adequacy or ability to generate sufficient cash flow to meet its obligations in a timely manner. During fiscal year 2008 the cash and cash equivalents of the Program decreased by $27,451 over the amount reported at June 30, 2007. As previously mention, the decrease in the Programs cash and cash equivalents at June 30, 2008 can be associated with the allocation of additional monies into higher-yielding investment securities during the year. As a result, the cash used in investing activities (purchase of investments) was greater than the cash provided from operating activities by $27,251.

Contacting the Administration of the Program:

This financial report is designed to provide member school districts and other users with a general overview of the Program'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, Program Administrator at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377 or by calling (937) 890-3725.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Net Assets
June 30, 2008

Assets:		
Current assets:		
Cash and cash equivalents	$	453,979
Deposit in escrow account		25,000
Accured interest receivable		14,350
Reinsurance receivable on paid claims		7,980
Total current assets		501,309
Non-current assets:		
Investments		1,438,333
Total assets	$	1,939,642
Liabilities:		
Current liabilities:		
Accounts payable	$	14,453
Reserve for claims payable		1,071,674
Unearned member premiums		45,432
Total liabilities		1,131,559
Net assets:		
Unrestricted		808,083
Total net assets		808,083
Total liabilities and net assets	$	1,939,642

See accompanying notes to the financial statements.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

Operating revenues:	
Member premiums	$ 2,035,336
Total operating revenues	2,035,336
Operating expenses:	
Claims expenses:	
Incurred claims and claim adjustment expenses	794,188
Reinsurance and insurance premiums	1,149,880
Total claims expenses	1,944,068
Program administrator fees	164,809
Claim processing fees and expenses	55,100
Management fees	14,453
Actuarial and audit fees	15,550
Bank charges and fees	667
Total operating expenses	2,194,647
Operating loss	(159,311)
Non-operating revenues:	
Interest earnings	108,193
Change in net assets	(51,118)
Net assets at beginning of year	859,201
Net assets at end of year	$ 808,083

See accompanying notes to the basic financial statements.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Cash Flows
Year Ended June 30, 2008

Cash flows from operating activities:	
Cash received for premium contributions	$ 2,174,599
Cash received on insurance recoveries	78,647
Cash payments for claim payments	(452,849)
Cash payments for excess insurance	(1,149,880)
Cash payments for program administration and claims processing	(219,909)
Cash payment for return of premiums to members	(93,831)
Cash payments for other expenses	(17,597)
Net cash provided by operating activities	319,180
Cash flows from investing activities:	
Purchase of investments	(1,450,478)
Sale of investments	1,000,000
Interest earnings	103,847
Net cash use by investing activities	(346,631)
Net decrease in cash and cash equivalents	(27,451)
Cash and cash equivalents at beginning of year	481,430
Cash and cash equivalents at end of year	$ 453,979

Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	$ (159,311)
Changes in operating assets and liabilities:	
Decrease on reinsurance receivable on paid claims	43,430
Increase in accounts payable	13,073
Increase in reserve for claims payable	376,556
Increase in unearned participant contributions	45,432
Total adjustments	478,491
Net cash provided by operating activities	$ 319,180

Non-cash investing activity item:

During 2008, the fair value of investments decreased by $12,145.

See accompanying notes to the basic financial statements.

1. Description of the Program:

The Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program (the Program) is a risk sharing pool managed and operated by the Southwestern Ohio Educational Purchasing Council (the Council). The Program is reported as a separate enterprise fund of the Council. The Program is controlled exclusively by the management of the Council and member districts participating in the Program are also member districts in the Council. The Council is a duly organized and existing Regional Council of Governments formed under the auspices of Chapter 167 of the Ohio Revised Code, which allows it to perform any function or duty performable by its member school districts.

General

The Program was organized in July 2003 as authorized by Section 2744.081 of the Ohio Revised Code. Pursuant to Section 2744.081 of the Ohio Revised Code, the Program is a Committee of the Council formed for the public purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Program are school districts located in the State of Ohio which are eligible to participate under applicable statute, rulings or law subject to certain underwriting standards as deemed appropriate by the Program and its administrator. During the year ended June 30, 2008, the Program served the insurance needs of 34 public school districts.

The Program was established to provide property, general liability, school leader's errors and omissions, automobile, excess liability, crime, surety and bond, inland marine and other coverage to its members. Coverage programs are developed specific to each member's risk management needs and the related premiums for coverage and administrative costs are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. The Program has agreed to pay judgments, settlements and other expenses arising related to the coverage provided in excess of the member's deductible.

The 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. See Note 5 for further explanation.

Pursuant to participation agreements, each member agrees to pay the established member premium rate, as established by the Program, on an annual basis. The member premium is established based on the level of coverage selected and includes funding for administrative fees, stop loss insurance premiums, expected claims, and establishment of adequate reserves. Actuarial determined reserves are established on a policy year basis.

The Program has an agreement with Arthur J. Gallagher Risk Management Services, Inc. to provide marketing, excess insurance placement, and support services. Specialty Claims Services Inc. provides claims adjusting and administrative services to the Program.

2. Summary of Accounting Policies:

The financial statements of the Program 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 Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Program has elected not to apply FASB Statements and interpretations issued after November 30, 1989. The more significant of the Program's accounting policies and practices are described below.

Basis of presentation:

The Program's basic financial statements consist of a statement of net assets, as statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The financial activity of the Program is accounted for within a single enterprise fund by the Southwestern Ohio Educational Purchasing Council during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement focus:

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Program are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Program finances and meets the cash flow needs of its enterprise activity.

Basis of accounting:

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Program's financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are accounted for as earned and expenses as incurred.

Cash and cash equivalents:

All deposits with financial institutions, and a State of Ohio depository institution, having an original maturity of 90 days or less are reported as cash and cash equivalents.

Investments:

All investments are stated at fair value. Realized gains and losses are determined on the identified cost basis. Unrealized gain/(losses) are included in interest earnings.

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.

Reserve for claims payable:

The Program has not established claims liabilities on risks except for those that it determined are liabilities which are not covered by excess insurers. For those risks, the Program has established claims liabilities that are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) 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. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts, particularly for coverage such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual and industry data that reflects past inflation and on other factors and are considered to be appropriate modifiers of past experience. See Notes 5 and 6 for further discussion.

The methods of making such estimates and establishing the ultimate liability for claims and claim adjustment expenses are reviewed regularly. Management believes that the estimate of the ultimate liability for claims and claim adjustment expenses reported as of June 30, 2008 is reasonable and reflective of anticipated ultimate experience. However, it is possible that the Program's actual incurred claims and claim adjustment expense will not conform to the assumptions inherent in the determination of the liability. Accordingly, it is reasonably possible that the ultimate settlement of claims and the related claim adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

Should the provisions for claims payable not be sufficient, the Program will utilize unrestricted net assets to cover the excess claim expense or assess supplemental contribution to the member districts.

Unearned participant contributions:

Unearned participant contributions represent premiums received from members prior to the end of the fiscal year but are intended to fund coverage policies effective the subsequent fiscal year.

Net assets:

Net assets represent the difference between assets and liabilities. It is displayed in three separate components as follows:

> Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
>
> Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.
>
> Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

As of June 30, 2008, the Program does not have any net assets meeting the definition of "invested in capital assets, net of related debt" or "restricted" net assets.

In the event of the termination of the Program, net assets will be used to settle all claims and other obligations incurred by the Program, as well as establishing an appropriate reserve to settle any future claims. Remaining net assets will become property of Council's general fund.

Classification of revenue:

The Program classifies its revenues as either operating or non-operating. Non-operating revenue results from the receipt of interest income. Member premiums are paid annually by participating entities and are recognized as revenue over the policy period.

Tax status:

The Program 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.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Program'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.

3. Deposits and Investments:

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Program's deposits may not be returned to it. The Council does not have a custodial risk policy. At year-end, the carrying amount of the Program's deposits was $(79,627) and the bank balance was $105,611.

Section 330.15 of the Federal Deposit Insurance Corporation (FDIC) regulations, all time and saving deposits owned by a public unit and held by the same official custodian in an insured depository institution with in the State in which the public unit is located are added together and insured up to $100,000. Savings deposits include NOW accounts, money market deposit accounts and other interest-bearing checking accounts.

At June 30, 2008, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling $810,339, including the Program's $105,611, of which $710,339 was subject to custodial credit risk as it was uninsured. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values equal to 105 percent or more of all public deposits to be secured by the collateral pool. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution. This pooled collateral covers the Program's uninsured and uncollateralized deposits.

Investments

At June 30, 2008 the investments of the Program consisted of the following investments:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than One Year	One to Three Years	Four to Five Years
Federal Home Loan Bank	$ 564,975	$ -	$ 150,845	$ 414,130
Federal Home Loan Mortgage Corp.	296,883	-	-	296,883
Federal National Mortgage Assoc.	576,475	-	-	576,475
Money Market	533,606	533,606	-	-
Total	$ 1,971,939	$ 533,606	$ 150,845	$ 1,287,488

Custodial Credit Risk: All investments shall be issued in the name of the Council per Ohio law.

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 2008, Standard and Poor's rated the Program's investments in government agency securities at AAA and the money market investment at AAAm.

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. At June 30, 2008, 29.2 percent of the Program's investments were in FNMA securities, 28.6 percent in FHLB securities, 27.1 percent in money market funds, and the remaining 15.1 percent were in FHLMC securities.

4. Return of Premiums:

During 2008, the Program determined to return $93,831 in premiums to the participating districts due to accumulated interest earnings in the Program and the adequate establishment loss reserves. These payments are accounted for as a reduction to current year premiums.

5. Self-Insured Retention/Excess Insurance:

The Program retains the first $250,000 of each loss for general liability, automobile, crime and surety and property claims. Each member has a maintenance deductible of $1,000 for property, automobile physical damage and crime claims; deductible for legal liability is $5,000 per occurrence. Stop loss insurance is purchased for the Program and is fully funded by member contributions. The stop loss coverage for the years ended June 30, 2008 and 2007 for claims in excess is $940,380 and $780,000, respectively. Coverage for boiler and machinery, as well as school leaders errors and omissions are purchased outside of the Program's retention program.

Excess insurance coverage provided by the Program above the $250,000 retention per loss are $300 million policy limit, $4 million in the aggregate for flood and earthquake losses and $5 million for any one occurrence and policy aggregate per member for liability losses. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first $250,000 of any additional covered loss.

In the event that any of the excess insurance companies are unable to meet their obligations under the existing excess insurance agreements, the Program would be liable for such defaulted amounts. The Program evaluates the financial condition of its excess insurers and monitors the concentration of credit risk to minimize its exposure to significant losses from insurer insolvencies.

Premiums of $1,149,880 were paid to excess insurers for the year ended June 30, 2008.

6. Reserve for Claims Payable:

As discussed in Note 2, the Program 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:

	June 30	
	2008	2007
Claims payable - beginning of year	$ 695,118	$ 956,393
Incurred claims and claim adjustments:		
Provision for insured events of the current year	940,380	780,000
Change in provision for insured events of prior year	(113,522)	(408,828)
Total incurred claims and claim adjustments	826,858	371,172
Payments:		
Claim payments attributable to claims of current year	200,324	348,211
Claim payments attributable to claims of prior years	249,978	284,236
Total payments	450,302	632,447
Claims payable - end of year	$ 1,071,674	$ 695,118

SUPPLEMENTAL SCHEDULES

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Schedule of Claims Development
Years Ended June 30, 2008, 2007, 2006, 2005 and 2004

	2008	2007	2006	2005	2004
1. Required contribution and investment revenue:					
Earned (paid contributions)	2,143,529	2,266,213	2,495,685	2,504,020	1,741,712
Ceded (excess insurance)	(1,149,880)	(1,328,715)	(1,357,180)	(1,482,947)	(1,010,604)
Net earned	993,649	937,498	1,138,505	1,021,073	731,108
2. Unallocated expenses:	250,579	240,406	251,405	211,799	135,667
3. Estimated claims and expenses, end of fiscal year:					
Incurred	1,003,304	895,618	813,016	614,069	423,533
Ceded	(62,924)	(115,618)	(23,016)	-	-
Net Incurred	940,380	780,000	790,000	614,069	423,533
4. Net paid claims as of:					
End of fiscal year	200,324	348,211	174,631	315,012	126,843
One year later		200,002	231,991	117,672	62,088
Two years later			49,879	50,777	34,527
Three years later				97	1,468
Four years later					-
5. Re-estimated net incurred claims and expense, as of:					
End of fiscal year	940,380	780,000	790,000	614,069	423,533
One year later		780,000	616,068	587,822	420,425
Two years later			542,960	537,344	409,344
Three years later				496,930	224,926
Four years later					224,926
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:	-	-	(247,040)	(117,139)	(198,607)

Note:
a) The fiscal year ending June 30, 2004 was the first year of operation for the entity.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Reconciliation of Claims Liabilities by Type of Contract
Years Ended June 30, 2008 and 2007

	Fiscal Year 2008		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 615,966	$ 79,152	$ 695,118
Incurred claims and claim adjustments:			
Provision for insured events of the current year	633,817	306,563	940,380
Change in provision for insured events of prior year	(112,022)	(1,500)	(113,522)
Total incurred claims and claim adjustments	521,795	305,063	826,858
Payments:			
Claim payments attributable to claims of current year	61,028	139,296	200,324
Claim payments attributable to claims of prior years	163,385	86,593	249,978
Total payments	224,413	225,889	450,302
Claims payable - end of year	$ 913,348	$ 158,326	$ 1,071,674

	Fiscal Year 2007		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 545,880	$ 410,513	$ 956,393
Incurred claims and claim adjustments:			
Provision for insured events of the current year	407,862	372,138	780,000
Change in provision for insured events of prior year	(221,375)	(187,453)	(408,828)
Total incurred claims and claim adjustments	186,487	184,685	371,172
Payments:			
Claim payments attributable to claims of current year	53,726	294,485	348,211
Claim payments attributable to claims of prior years	62,675	221,561	284,236
Total payments	116,401	516,046	632,447
Claims payable - end of year	$ 615,966	$ 79,152	$ 695,118

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*

Committee Members
Southwestern Ohio Educational Purchasing Council
- Liability, Fleet and Property Insurance Program
Vandalia, Ohio

We have audited the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council, as of and for the year ended June 30, 2008, and have issued our report thereon dated May 8, 2009, wherein we noted the Program is an enterprise fund within the accounting records of the Southwestern Ohio Educational Purchasing Council. We conducted our audit in accordance with auditing standards generally accepted in the United Sates of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures 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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings as item 2008-001 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2008-001, which is described above, to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Program in a separate letter dated May 8, 2009.

The Program's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Program's response and, accordingly, we express no opinion on it.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 8, 2009

Finding Number 2008-001: Audit Adjustment/Posting of Interest Earnings

During fiscal year 2008, the investment earnings from the Program's investment account was not properly posted to the accounting records. This resulted in the interest receipts and ending fund cash balances reported by the accounting system to be understated at year-end. Audit adjustments were proposed and posted to correct the interest revenue and cash balance reported in the accompanying financial statements.

The accuracy and presentation of the Program's financial statements is the responsibility of management, including the implementation of adequate control procedures to prevent and detect potential misstatements in the financial statement. The independent audit should not be considered part of the Program's internal control structure and should not be relied upon by management to detect misstatements. As such, if adjustments are necessary based on audit procedures performed, it is an indicator that the controls put in place by the Program over financial report are not working or were not properly designed.

All financial activity should be properly posted to the accounting records and the monthly reconciliation process should recognize the interest and dividend income reported by the investment account.

Management response:
We have been made aware of the issue and it will be corrected on the accounting records. In addition, we will change the carrying value of the investments used in the monthly reconciliation to include the interest and dividend income reported for the month on the investment statement.

Mary Taylor, CPA
Auditor of State

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL LIABILITY, FLEET AND PROPERTY INSURANCE

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
JUNE 16, 2009

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