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

Basic Financial Statements

June 30, 2013

with Independent Auditors' Report

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

Dave Yost • Auditor of State

Committee Members
Southwestern Ohio Educational Purchasing Council-
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 - Liability, Fleet and Property Insurance Program, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2012 through June 30, 2013. 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 - Liability, Fleet and Property Insurance Program is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

March 18, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council, which comprise the statement of net position as of June 30, 2013, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility
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 from material misstatement.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2013, the change in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2, 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, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis (pages3 through 6), the Schedule of Claims Development (page 19), and the Reconciliation of Claims Liabilities by Type of Contract (page 20) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 January 2, 2014 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 compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 2, 2014

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, 2013. 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.

The Program:

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, 2013, the Program had 51 participating members.

Basic Financial Statements and Presentation:

The financial statements presented by the Program are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 and accounted for as one enterprise fund within the accounting records of the Council.

The Statement of Net Position:

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

Total assets of the Program at June 30, 2013 were $289,247 less than those reported one year prior, a 13.3 percent decrease. The majority of the decrease in assets for fiscal year 2013 is attributable to the reduction in reinsurance receivable reported. In the prior fiscal year there was a loss suffered at one covered district which significantly exceeded the Program's self-insured retention (SIR) limit of $150,000 per loss. While the Program paid the majority of claims submitted in the prior year, reimbursement from excess insurers did not occur until fiscal year 2013. As no such claims were incurred during fiscal year 2013, the reinsurance receivable is significantly lower than the amount reported one year prior.

Liabilities associated with reserve for claims payable represent 94.0 percent of the Program's total liabilities reported at June 30, 2013 compared to 96.4 percent one year prior. The reserve for claims payable increased by $110,676 or 6.3 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 2013 is attributable to the amount of claims actually paid during fiscal year 2013 being less total anticipated total loss for the year. The anticipated total loss for the current fiscal year is projected to be $1.2 million, or 94.8 percent of the Program's stop-loss limit established for the policy year. As the program enters its tenth year of operation, the more open claim years that exist the larger the anticipated loss will be, especially related to covered casualty losses.

In fiscal year 2013, the Program retained the first $150,000 of each loss for property and liability coverage, compared to the $250,000 per loss limit retained in the year before. Due to the stability in the number of participating members, the Program was able to raise the amount at which the aggregate stop-loss insurance policy begins to $1,263,956 for the fiscal year compared to the $1,136,000 limit established for the prior year.

Table 1 provides a summary of the Program's net position for fiscal years 2013 and 2012.

TABLE 1
NET POSITION

	2013	2012
Assets:		
Current Assets:		
Cash and cash equivalents	$ 461,075	$ 464,739
Other assets	145,575	423,370
Non-Current Assets:		
Investments	1,277,611	1,285,399
Total Assets	1,884,261	2,173,508
Liabilities:		
Current Liabilities:		
Reserve for claims payable	1,865,704	1,755,028
Other liabilities	118,781	66,251
Total Liabilities	1,984,485	1,821,279
Net Position:		
Unrestricted (Deficit)	(100,224)	352,229
Total Net Position	$ (100,224)	$ 352,229

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

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the Program's net position changed during the year. During fiscal year 2013, the Program reported a decrease in net position of $452,453, which resulted in the Program ending the year with a $100,224 deficit. Total expenses increased by $763,592, or 26.2 percent, over those reported for the prior year. Incurred claims and adjustment expense were $360,116 higher than the prior year as the Program continues to project total losses to approximate the aggregate stop-loss insurance limits established; a trend covering the past four fiscal years. Increases in the cost of reinsurance premiums also contributed to the increase in total costs. Reinsurance premiums for fiscal year 2013 were $354,149 more than the amount reported for the prior year. This was an expected increase as the number of participating districts increased as well as the increased cost of insurance premiums seen nationwide.

Table 2 shows the changes in net position for the year ended June 30, 2013, as well as revenue and expense comparisons to fiscal year 2012.

TABLE 2
CHANGES IN NET POSITION

	2013	2012
Operating Revenues:		
Member premiums	$ 3,223,305	$ 2,625,044
Total Operating Revenues	3,223,305	2,625,044
Operating Expenses:		
Claims expense	3,209,227	2,494,962
Program administrator fees	315,808	282,936
Claims processing fees and expenses	114,600	88,500
Other operating expenses	37,602	47,247
Total Operating Expenses	3,677,237	2,913,645
Operating Loss	(453,932)	(288,601)
Non-Operating Revenues:		
Interest earnings	1,479	11,937
Change in Net Position	(452,453)	(276,664)
Net Position at Beginning of Year	352,229	628,893
Net Position at End of Year	$ (100,224)	$ 352,229

As shown in table 2, member premiums increased by $598,261, or 22.8 percent, for fiscal year 2013 over the prior year as the Program gained new members districts during the year as well as the overall increase in premiums approved for the year. Member premiums are reviewed annually to determine the need to provide additional capital to settle expected claims for the year.

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 2013 the cash and cash equivalents of the Program decreased by $3,664 over the amount reported at June 30, 2012, or less than 1.0 percent. Program fund invested at year-end were comparable with the amount reported one year prior.

The operating activities of the Program reported using $10,768 of cash and cash equivalents during the current fiscal year.

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 Position
June 30, 2013

Assets:	
Current assets:	
Cash and cash equivalents	$ 436,075
Deposit in escrow account	25,000
Accured interest receivable	2,163
Reinsurance receivable on paid claims	143,412
Total current assets	606,650
Non-current assets:	
Investments	1,277,611
Total assets	$ 1,884,261
Liabilities:	
Current liabilities:	
Reserve for claims payable	$ 1,865,704
Unearned member premiums	118,781
Total liabilities	1,984,485
Net position:	
Unrestricted deficit	(100,224)
Total net position	(100,224)
Total liabilities and net position (deficit)	$ 1,884,261

See accompanying notes to the financial statements.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2013

Operating revenues:	
Member premiums	$ 3,223,305
Total operating revenues	3,223,305
Operating expenses:	
Claims expenses:	
Incurred claims and claim adjustment expenses	1,426,481
Reinsurance and insurance premiums	1,782,746
Total claims expenses	3,209,227
Program administrator fees	315,808
Claim processing fees and expenses	114,600
Management fees	22,852
Actuarial and audit fees	14,750
Total operating expenses	3,677,237
Operating loss	(453,932)
Non-operating revenues:	
Interest earnings	1,479
Change in net position	(452,453)
Net position at beginning of year	352,229
Net deficit at end of year	$ (100,224)

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, 2013

Cash flows from operating activities:	
Cash received for premium contributions	$ 3,275,835
Cash received on insurance recoveries	1,347,654
Cash received for participant deductibles	2,000
Cash payments for claim payments	(2,383,431)
Cash payments for excess insurance	(1,782,746)
Cash payments for program administration and claims processing	(430,408)
Cash payments for other expenses	(39,672)
Net cash used in operating activities	(10,768)
Cash flows from investing activities:	
Purchase of investments	(1,257,082)
Sale of investments	1,250,000
Interest earnings	14,186
Net cash provided by investing activities	7,104
Net decrease in cash and cash equivalents	(3,664)
Cash and cash equivalents at beginning of year	439,739
Cash and cash equivalents at end of year	$ 436,075

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (453,932)
Changes in operating assets and liabilities:	
Decrease on reinsurance receivable on paid claims	279,958
Increase in reserve for claims payable	110,676
Increase in unearned participant contributions	52,530
Total adjustments	443,164
Net used in operating activities	$ (10,768)

Non-cash investing activity item:

During fiscal year 2013, the fair value of investments decreased by $14,870.

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, 2013, the Program served the insurance needs of 51 participating entities.

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 4 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 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 position, as statement of revenues, expenses and changes in net position, 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 position, 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 position. The statement of changes in net position 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 4 and 5 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, 2013 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 any available unrestricted net position to cover the excess claim expense or assess supplemental contribution to the participating 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 Position:

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

> Investment in net capital assets – 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 position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.
>
> Unrestricted – This consists of net position that do not meet the definition of "restricted" or "investment in net capital assets".

As of June 30, 2013, the Program does not have any net position meeting the definition of "investment in net capital assets" or "restricted" net position, as noted above.

In the event of the termination of the Program, net position, if available, 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. Any remaining net position 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 besides that established by State law. At year-end, the carrying amount of the Program's deposits was $461,075.

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 $250,000. Savings deposits include NOW accounts, money market deposit accounts and other interest-bearing checking accounts.

At June 30, 2013, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling $14,795,184, including $436,075 of the Program's deposit. Of the Council's bank deposits, Federal Deposit Insurance Corporation (FDIC) covered $250,000. In addition, FDIC covers the $25,000 held in the claims settlement escrow account. 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 collateralizes the Council's uninsured deposits of $14,545,184.

Investments

At June 30, 2013 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
Federal Home Loan Mortgage Corp.	$ 496,095	$ -	$ 496,095
Fedreal National Mortgage Agency	741,923	-	741,923
Money Market	39,593	39,593	-
Total	$ 1,277,611	$ 39,593	$ 1,238,018

Custodial Credit Risk: All investments shall be issued and held 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 2013, Standard and Poor's rated the Program's investments in the government agency securities at AA+ 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, 2013, the Program portfolio consisted of the following; 58 percent in Federal National Mortgage Association (FNMA) securities, 39 percent in Federal Home Loan Mortgage Corporation (FHLMC) securities, and 3 percent in money market funds.

4. Self-Insured Retention/Excess Insurance:

The Program retained the first $150,000 of each loss for general liability, automobile, crime and surety and property claims for fiscal year 2013 compared with the $250,000 self-retained risk limit established for the prior year. Each member has a maintenance deductible of $1,000 for property, automobile physical damage and crime claims; $3,500 per occurrence for boiler & machinery deductible; deductible for legal liability is $5,000 per occurrence; and $25,000 deductible per occurrence for pollution legal liability. Stop loss insurance is purchased for the Program and coverage amounts were established for claims in excess of $1,263,956 and $1,136,000 for fiscal year 2013 and 2012, respectively. Coverage for boiler and machinery, as well as school leader's errors and omissions are purchased outside of the Program's retention program.

Excess insurance coverage provided by the 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); $5 million per occurrence/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; $10 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.

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 $1,782,746 were paid to excess insurers for the year ended June 30, 2013.

5. 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	
	2013	2012
Claims payable - beginning of year	$ 1,755,028	$ 1,204,882
Incurred claims and claim adjustments:		
Provision for insured events of the current year	1,197,920	1,136,000
Change in provision for insured events of prior year	(153,944)	(142,026)
Total incurred claims and claim adjustments	1,043,976	993,974
Payments:		
Claim payments attributable to claims of current year	175,083	167,001
Claim payments attributable to claims of prior years	758,217	276,827
Total payments	933,300	443,828
Claims payable - end of year	$ 1,865,704	$ 1,755,028

6. Contingencies – Litigation:

The Program is party to various legal proceedings, which normally occur in the course of claims processing operations. 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 accrued 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.

7. Change in Accounting Principles:

During the year ended June 30, 2013, the Program implemented the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or Resources and Net Position*. Neither of these

GASB Statement No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which do not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Program.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources which are financial statements elements that are distinct from assets and liabilities. This Standard standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on “net position”. The implementation of this Standard changed the Program’s financial statements to incorporate the concepts of net position. The Program currently reports no items classified as deferred outflows of resources or deferred inflows of resources.

SUPPLEMENTAL SCHEDULES

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Schedule of Claims Development
Last Ten Fiscal Years Ended June 30

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
1. Required contribution and investment revenue:										
Earned (paid contributions) and interest	3,224,784	2,636,981	2,521,236	2,209,885	2,019,953	2,143,529	2,266,213	2,495,685	2,504,020	1,741,712
Ceded (excess insurance)	(1,782,746)	(1,428,597)	(1,473,369)	(1,187,407)	(1,063,466)	(1,149,880)	(1,328,715)	(1,357,180)	(1,482,947)	(1,010,604)
Net earned	1,442,038	1,208,384	1,047,867	1,022,478	956,487	993,649	937,498	1,138,505	1,021,073	731,108
2. Unallocated expenses:	468,010	418,683	473,774	340,247	338,801	250,579	240,406	251,405	211,799	135,667
3. Estimated claims and expenses, end of fiscal year:										
Incurred	1,197,920	1,188,042	1,178,887	848,794	2,123,088	1,003,304	895,618	813,016	614,069	423,533
Ceded	-	(52,042)	(54,390)	-	(1,078,238)	(62,924)	(115,618)	(23,016)	-	-
Net Incurred	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000	614,069	423,533
4. Net paid claims as of:										
End of fiscal year	175,084	167,001	197,649	124,610	832,273	200,324	348,211	174,631	315,012	126,843
One year later		489,405	441,730	427,282	496,847	84,933	200,002	231,991	117,672	62,088
Two years later			126,678	75,924	(25,880)	93,489	125,687	49,879	50,777	34,527
Three years later				124,367	(257,666)	87,739	6,915	446	97	1,468
Four years later					8,679	(100)	(12,439)	3,527	-	-
Five years later						327	5,746	1,817	-	-
Six years later							8,761	11,193	-	-
Seven years later								-	-	-
Eight years later									-	-
Nine years later										-
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000	614,069	423,533
One year later		1,107,276	1,124,497	991,091	1,044,850	481,161	780,000	616,068	587,822	420,425
Two years later			1,093,498	926,413	1,044,850	562,557	770,850	542,960	537,344	409,344
Three years later				824,275	1,044,850	467,510	710,847	485,029	496,930	224,926
Four years later					1,044,850	467,410	702,762	477,397	483,558	224,926
Five years later						466,760	675,411	524,104	483,558	224,926
Six years later							682,883	473,484	483,558	224,926
Seven years later								473,484	483,558	224,926
Eight years later									483,558	224,926
Nine years later										224,926
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:		(28,724)	(30,999)	(24,519)	-	(473,620)	(97,117)	(316,516)	(130,511)	(198,607)

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Reconciliation of Claims Liabilities by Type of Contract
Years Ended June 30, 2013 and 2012

	Fiscal Year 2013		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 1,283,692	$ 471,336	$ 1,755,028
Incurred claims and claim adjustments:			
Provision for insured events of the current year	615,671	582,249	1,197,920
Change in provision for insured events of prior year	(383,415)	229,471	(153,944)
Total incurred claims and claim adjustments	232,256	811,720	1,043,976
Payments:			
Claim payments attributable to claims of current year	54,336	120,747	175,083
Claim payments attributable to claims of prior years	333,394	424,823	758,217
Total payments	387,730	545,570	933,300
Claims payable - end of year	$ 1,128,218	$ 737,486	$ 1,865,704

	Fiscal Year 2012		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 923,333	$ 281,549	$ 1,204,882
Incurred claims and claim adjustments:			
Provision for insured events of the current year	665,203	470,797	1,136,000
Change in provision for insured events of prior year	(138,929)	(3,097)	(142,026)
Total incurred claims and claim adjustments	526,274	467,700	993,974
Payments:			
Claim payments attributable to claims of current year	29,554	137,447	167,001
Claim payments attributable to claims of prior years	136,361	140,466	276,827
Total payments	165,915	277,913	443,828
Claims payable - end of year	$ 1,283,692	$ 471,336	$ 1,755,028

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
303 Corporate Center Drive, Suite 208
Vandalia, Ohio 45377

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 Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council, which comprise the statement of net position as of June 30, 2013 and the related statements of revenues, expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 2, 2014 wherein we noted the Program is an enterprise fund within the accounting records of the Southwestern Ohio Educational Purchasing Council.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 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 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 Program'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 Program'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 Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 2, 2014

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At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL – LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 1, 2014

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