

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

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Executive Board

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 Auditor's Report* of the Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program, Montgomery County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 are responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 14, 2016

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

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October 19, 2016

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the "Program") of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program'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 Program'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 Liability, Fleet and Property Insurance Program of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of June 30, 2016, and the changes in financial position and, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 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, 2016, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8, the schedule of claims development on page 20 and reconciliation of claims liabilities by type of contract on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 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 Program's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Lima, Ohio

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

Montgomery County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

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, 2016. 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, 2016, the Program had 59 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 of cash and cash equivalents and investments. Liabilities consist of reserves for claims payable and unearned member premiums.

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

Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

Table 1 provides a summary of the Program's net position for fiscal years 2016 and 2015.

**TABLE 1
NET POSITION**

	<u>2016</u>	<u>2015</u>
<u>Assets:</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,018,440	\$ 635,483
Non-Current Assets:		
Investments	<u>1,315,299</u>	<u>1,306,996</u>
Total Assets	<u>2,333,739</u>	<u>1,942,479</u>
 <u>Liabilities:</u>		
Current Liabilities:		
Reserve for claims payable	1,142,523	1,572,476
Unearned member premiums	<u>355,825</u>	<u>297,668</u>
Total Liabilities	<u>1,498,348</u>	<u>1,870,144</u>
 <u>Net Position:</u>		
Unrestricted	<u>\$ 835,391</u>	<u>\$ 72,335</u>

Total assets of the Program at June 30, 2016 were \$391,260 more than those reported one year prior, a 20 percent increase. The increase in cash and cash equivalents resulted from timing of participant contributions as compared to incurred and paid claims and excess insurance expenses.

Liabilities associated with reserve for claims payable represent 76 percent of the Program's total liabilities reported at June 30, 2016 compared to 84 percent one year prior. The reserve for claims payable decreased by \$429,953 or 27 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 decrease in the reserve for claims payable for fiscal year 2016 is attributable to reduction in estimated losses anticipated for prior years, in the current year actuary report. It is not unusual for estimated losses for a particular fiscal year to be adjusted in subsequent fiscal years as more historical data becomes available associated with potential losses for that specific period of time. These estimates can fluctuate and are based on several variables.

In fiscal year 2016, the Program retained the first \$150,000 of each loss for property and liability coverage, which was the same limit retained in the year before. The Program amount for the aggregate stop-loss insurance policy begins at \$1,286,032 for the fiscal year consistent with the \$1,284,801 limit established for the prior year.

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

Montgomery County, Ohio
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

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

Table 2 shows the changes in net position for the year ended June 30, 2016, as well as revenue and expense comparisons to fiscal year 2015.

**TABLE 2
CHANGES IN NET POSITION**

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues:</u>		
Member premiums	\$ 3,820,240	\$ 3,824,404
Subrogation	436,769	278,346
Other revenue	25,380	0
Total Operating Revenues	<u>4,282,389</u>	<u>4,102,750</u>
<u>Operating Expenses:</u>		
Incurred claims and claim adjustment expense	1,102,384	1,566,925
Reinsurance and insurance premiums	2,090,023	2,129,961
Program administrator fees	294,623	287,040
Claims processing fees and expenses	0	43,150
Other operating expenses	40,762	60,714
Total Operating Expenses	<u>3,527,792</u>	<u>4,087,790</u>
Operating Income	<u>754,597</u>	<u>14,960</u>
<u>Non-Operating Revenues (Expenses):</u>		
Investment earnings (loss)	<u>8,459</u>	<u>(14,849)</u>
Change in Net Position	763,056	111
Net Position at Beginning of Year	<u>72,335</u>	<u>72,224</u>
Net Position at End of Year	<u>\$ 835,391</u>	<u>\$ 72,335</u>

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 2016, the Program reported an increase in net position of \$763,056, which resulted in the Program ending the year with a net position of \$835,391. Total expenses decreased by \$559,998, or 14 percent, compared to those reported for the prior year. Incurred claims and adjustment expense were \$464,541 less than the prior year as the estimated anticipated losses for prior fiscal years were less in the current actuary report than they were in similar reports produced in prior years. Anticipated loss estimates of prior years are revised by the actuary based on historical information available regarding unpaid losses for those particular years.

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

Montgomery County, Ohio

Management's Discussion and Analysis

For the Year Ended June 30, 2016

(Unaudited)

As shown in Table 2 above, subrogation increased by \$158,423, or 57 percent, for fiscal year 2016 over the prior year as the Program. Subrogation increased due to third party insurance claims.

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'S
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM**

Montgomery County, Ohio

Statement of Net Position

Proprietary Fund

June 30, 2016

Assets:

Current assets:

Cash and cash equivalents	\$ 1,018,440
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Non-current assets:

Investments	1,315,299
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Total assets	<u>2,333,739</u>
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Liabilities:

Current liabilities:

Reserve for claims payable	1,142,523
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Unearned member premiums	355,825
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Total liabilities	<u>1,498,348</u>
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Net position:

Unrestricted	<u>\$ 835,391</u>
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See accompanying notes to the basic financial statements.

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

Montgomery County, Ohio

Statement of Revenues, Expenses and Change in Net Position

Proprietary Fund

Year Ended June 30, 2016

<u>Operating revenues:</u>	
Member premiums	\$ 3,820,240
Subrogation	436,769
Other revenues	25,380
Total operating revenues	<u>4,282,389</u>
<u>Operating expenses:</u>	
Claims expenses:	
Incurred claims and claim adjustment expenses	1,102,384
Reinsurance and insurance premiums	2,090,023
Total claims expenses	<u>3,192,407</u>
Program administrator fees	294,623
Actuarial and audit fees	40,762
Total operating expenses	<u>3,527,792</u>
Operating income	<u>754,597</u>
<u>Non-operating revenues (expenses):</u>	
Investment income	8,459
Total non-operating revenues	<u>8,459</u>
Change in net position	763,056
Net position at beginning of year	72,335
Net position at end of year	<u><u>\$ 835,391</u></u>

See accompanying notes to the basic financial statements.

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

Montgomery County, Ohio

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2016

Cash flows from operating activities:

Cash received for premium contributions	\$ 3,878,397
Cash received on subrogation	436,769
Cash received for other revenue	25,380
Cash payments for claim payments	(1,532,337)
Cash payments for excess insurance	(2,090,023)
Cash payments for program administration and claims processing	(294,623)
Cash payments for other expenses	(40,762)
Net cash provided by operating activities	<u>382,801</u>

Cash flows from investing activities:

Interest earnings	<u>25,156</u>
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Net increase in cash and cash equivalents 407,957

Cash and cash equivalents at beginning of year 610,483

Cash and cash equivalents at end of year \$ 1,018,440

**Reconciliation of operating income to net cash provided
by operating activities:**

Operating income	\$ 754,597
Increase/(Decrease) in liabilities:	
Reserve for claims payable	(429,953)
Unearned participant contributions	58,157
Net provided by (used for) operating activities	<u>\$ 382,801</u>

See accompanying notes to the basic financial statements.

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

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, 2016, the Program served the insurance needs of 59 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. JWF Specialty Company provides claims adjusting and administrative services to the Program.

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

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, a 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, deferred outflows, all liabilities, and deferred inflows 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.

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

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, 2016 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.

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

Montgomery County, Ohio
Notes to the Basic Financial Statements
June 30, 2016

Net position:

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

Net Investment in 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, 2016, the Program does not have any net position meeting the definition of “net investment in 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.

Operating Revenues and Expenses

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

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.

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

Montgomery County, Ohio
Notes to the Basic Financial Statements
June 30, 2016

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 \$1,018,440.

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 within 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, 2016, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling \$47,547,848, including \$1,018,440 of the Program's deposit. Of the Council's bank deposits, Federal Deposit Insurance Corporation (FDIC) covered \$250,000. 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 \$47,297,848.

Investments

At June 30, 2016 the investments of the Program consisted of the following investments:

Investment Type	Measurement Amount	Percent Of Total	Investment Maturities (in Years)		
			Less than 12 months	12 - 36 Months	More Than 36 Months
Federal Home Loan Mortgage Corp.	\$ 500,245	38.03%	\$250,195	\$ 250,050	\$ 0
Federal Farm Credit Bank	500,115	38.02%	250,110	0	250,005
Federal National Mortgage Association	250,018	19.01%	0	250,018	0
Money Market	64,921	4.94%	64,921	0	0
Total	<u>\$1,315,299</u>	<u>100.00%</u>	<u>\$565,226</u>	<u>\$ 500,068</u>	<u>\$ 250,005</u>

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above table identifies the Program's recurring fair value measurements as of June 30, 2016. All other investments of the Program are valued using quoted market prices (Level 1 inputs).

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 Program'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 Program, whichever is earlier.

Credit Risk: The Program's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal year 2016, 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 Program requires the portfolio to be diversified in order to minimize potential losses with respect to individual securities.

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 2016 which is the same self-retained risk limit established for the prior year. Each member has a maintenance deductible of \$5,000 for property and crime claims, \$1,000 for automobile physical damage; \$3,500 per occurrence for boiler & machinery deductible; deductible for legal liability is \$10,000 per occurrence; and \$25,000 deductible per occurrence for pollution legal liability. Stop loss insurance is purchased for the Program and coverage amounts were established for claims in excess of \$1,286,032 and \$1,284,801 for fiscal year 2016 and 2015, respectively. Coverage for boiler and machinery, school board legal liability, as well as pollution legal liability 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); \$3 million per occurrence and \$1 million per aggregate per district for excess liability (general liability, automobile, school board legal, sexual abuse and molestation, and employee benefits); \$250 million per occurrence for boiler and equipment; \$5 million policy aggregate/\$1 million per incident/\$1 million aggregate per district for pollution legal liability; and \$500,000 each and every loss for criminal acts coverage. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first \$150,000 of any additional covered loss.

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

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 \$2,090,023 were paid to excess insurers for the year ended June 30, 2016.

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	
	2016	2015
Claims payable - beginning of year	\$1,572,476	\$1,674,479
Incurred claims and claim adjustments:		
Provision for insured events of the current year	859,431	1,284,801
Change in provision for insured events of prior year	242,953	282,124
Total incurred claims and claim adjustments	1,102,384	1,566,925
Payments:		
Claim payments attributable to claims of current year	353,108	390,003
Claim payments attributable to claims of prior years	1,179,229	1,278,925
Total payments	1,532,337	1,668,928
Claims payable - end of year	\$1,142,523	\$1,572,476

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.

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

Montgomery County, Ohio

Notes to the Basic Financial Statements

June 30, 2016

7. Implementation of New Accounting Principles:

For the fiscal year ended June 30, 2016, the Program has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Program's fiscal year 2016 note disclosures; however, there was no effect on beginning net position.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Program.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Program.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Program.

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

Montgomery County, Ohio

Schedule of Claims Development

Last Ten Fiscal Years Ended June 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. Required contribution and investment revenue:										
Earned (paid contributions) and interest	3,828,699	3,809,555	3,578,824	3,224,784	2,636,981	2,521,236	2,209,885	2,019,953	2,143,529	2,266,213
Ceded (excess insurance)	(2,090,023)	(2,129,961)	(2,051,216)	(1,782,746)	(1,428,597)	(1,473,369)	(1,187,407)	(1,063,466)	(1,149,880)	(1,328,715)
Net earned	1,738,676	1,679,594	1,527,608	1,442,038	1,208,384	1,047,867	1,022,478	956,487	993,649	937,498
2. Unallocated expenses:	335,385	390,904	486,702	468,010	418,683	473,774	340,247	338,801	250,579	240,406
3. Estimated claims and expenses, end of fiscal year:										
Incurred	859,431	1,641,103	1,490,713	1,197,920	1,188,042	1,178,887	848,794	2,123,088	1,003,304	895,618
Ceded	0	(356,302)	(111,536)	0	(52,042)	(54,390)	0	(1,078,238)	(62,924)	(115,618)
Net Incurred	859,431	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000
4. Net paid claims as of:										
End of fiscal year	353,108	390,003	483,244	175,084	167,001	197,649	124,610	832,273	200,324	348,211
One year later		824,860	622,838	467,490	656,406	639,379	551,892	1,329,120	285,257	548,213
Two years later			806,494	810,864	959,767	766,057	627,816	1,303,240	378,746	673,900
Three years later				844,810	1,024,233	885,289	752,183	1,045,574	466,485	680,815
Four years later					1,041,883	991,168	752,183	1,054,253	466,385	668,376
Five years later						1,080,258	752,183	1,051,995	466,712	674,122
Six years later							752,183	1,042,650	466,186	682,883
Seven years later								1,042,650	465,117	682,883
Eight years later									466,961	682,883
Nine years later										682,883
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	859,431	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000
One year later		1,147,165	947,232	887,709	1,107,276	1,124,497	991,091	1,044,850	481,161	780,000
Two years later			949,421	935,498	1,125,198	1,093,498	926,413	1,044,850	562,557	770,850
Three years later				966,950	1,130,436	1,083,432	824,275	1,044,850	467,510	710,847
Four years later					1,100,057	1,118,744	752,183	1,044,850	467,410	702,762
Five years later						1,080,258	752,183	1,044,850	466,760	675,411
Six years later							752,183	1,044,850	468,082	682,883
Seven years later							752,183	1,042,650	467,135	682,883
Eight years later									466,961	682,883
Nine years later										682,883
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:		(137,636)	(429,756)	(230,970)	(35,943)	(44,239)	(96,611)	(2,200)	(473,419)	(97,117)

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

Montgomery County, Ohio

Reconciliation of Claims Liabilities by Type of Contract
Years Ended June 30, 2016 and 2015

	Fiscal Year 2016		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	\$ 693,052	\$ 879,424	\$ 1,572,476
Incurred claims and claim adjustments:			
Provision for insured events of the current year	513,031	346,400	859,431
Change in provision for insured events of prior year	145,029	97,924	242,953
Total incurred claims and claim adjustments	658,060	444,324	1,102,384
Payments:			
Claim payments attributable to claims of current year	167,866	185,242	353,108
Claim payments attributable to claims of prior years	560,600	618,629	1,179,229
Total payments	728,466	803,871	1,532,337
Claims payable - end of year	\$ 622,646	\$ 519,877	\$ 1,142,523
	Fiscal Year 2015		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	\$ 837,254	\$ 837,225	\$ 1,674,479
Incurred claims and claim adjustments:			
Provision for insured events of the current year	336,157	948,644	1,284,801
Change in provision for insured events of prior year	73,815	208,309	282,124
Total incurred claims and claim adjustments	409,972	1,156,953	1,566,925
Payments:			
Claim payments attributable to claims of current year	129,502	260,501	390,003
Claim payments attributable to claims of prior years	424,672	854,253	1,278,925
Total payments	554,174	1,114,754	1,668,928
Claims payable - end of year	\$ 693,052	\$ 879,424	\$ 1,572,476

October 19, 2016

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the "Program") of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated October 19, 2016, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Southwestern Ohio Educational Purchasing Council's
Liability, Fleet and Property Insurance Program
Independent Auditor's Report On Internal Control Over Financial
Reporting And On Compliance And Other Matters
Based On The Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*
Page 2 of 2

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Lima, Ohio

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Dave Yost • Auditor of State

SWOEPC-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
DECEMBER 27, 2016**