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

Montgomery County, Ohio

Basic Financial Statements

June 30, 2009

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

Mary Taylor, CPA
Auditor of State

The Council
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, 2008 through June 30, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 27, 2010

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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

We have audited the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 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, 2009 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liability, Fleet and Property Insurance Program of the Southwestern Ohio Educational Purchasing Council as of June 30, 2009, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2010, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 21, 2010

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, 2009. 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, 2009, the Program had 36 participating members.

Basic Financial Statements and Presentation:

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

The Statement of Net Assets:

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

Total assets of the Program at June 30, 2009 were $355,167 less than those reported one year prior, an 18.3 percent decrease. Combined, cash and investments reported at the end of fiscal year 2009 decreased $379,230 compared to the total reported for fiscal year 2008. This decrease was due to investments being liquidated as they matured as well as additional cash needed by the Program to fund the claims resulting from the damage caused by the remnants of hurricane Ike in September 2008. Higher cash and cash equivalent balances somewhat offset the total decrease in investment balance. As the rates on long-term investments continue to decrease, it becomes less attractive to utilize Program cash as well.

Liabilities associated with reserve for claims payable represent 81.4 percent of the Program's total liabilities reported at June 30, 2009 compared to 94.7 percent one year prior. The reserve for claims payable decreased by $538,160 or 50.2 percent compared with the amount reported for the prior year. The reserve for claims payable are liabilities carried for net unpaid claims, both reported and incurred but unreported existing at the end of the fiscal year. The reserve for claims payable is established annually with the assistance of an outside actuary based on statistical models. The decrease in the reserve for claims payable for fiscal year 2009 is attributable to the amount of claims actually paid during fiscal year 2009 neared the stop-loss limit established. Once that limit is reached, excess insurance becomes responsible for 100 percent of the claims incurred for the year. Therefore, with minimal exposure remaining for fiscal year 2009 claims as well as typical adjustments to prior year claim estimates, the overall projected remaining liability decreased significantly at June 30, 2009.

In fiscal year 2009, the Program retained the first $250,000 of each loss for property and liability coverage, the same as the year before. Furthermore, due to continued growth in the number of participating members, the Program was able to raise the amount at which the aggregate stop-loss insurance policy begins to $1,044,850 for the fiscal year compared to the $940,380 limit established for the prior year.

Table 1 provides a summary of the Program's net assets for fiscal years 2009 and 2008.

TABLE 1
NET ASSETS

	2009	2008
Assets:		
Current Assets:		
Cash and cash equivalents	$ 851,614	$ 453,979
Other assets	71,393	47,330
Non-Current Assets:		
Investments	661,468	1,438,333
Total Assets	1,584,475	1,939,642
Liabilities:		
Current Liabilities:		
Reserve for claims payable	533,514	1,071,674
Other liabilities	121,635	59,885
Total Liabilities	655,149	1,131,559
Net Assets:		
Unrestricted	929,326	808,083
Total Net Assets	$ 929,326	$ 808,083

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

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Program's net assets changed during the year. During fiscal year 2009, the Program reported an increase in net assets of $121,243 or 15.0 percent of the total net assets reported for June 30, 2008. With the necessary reserve, as determined by the actuary, included as a liability, the unrestricted net assets totaled $929,326 at year end or approximately 47.1 percent of the Program's operating expenses reported for year.

Table 2 shows the changes in net assets for the year ended June 30, 2009, as well as revenue and expense comparisons to fiscal year 2008.

TABLE 2
CHANGES IN NET ASSETS

	2009	2008
Operating Revenues:		
Member premiums	$ 2,019,953	$ 2,035,336
Other revenues	7,176	-
Total Operating Revenues	2,027,129	2,035,336
Operating Expenses:		
Claims expense	1,632,436	1,944,068
Program administrator fees	214,641	164,809
Claims processing fees and expenses	84,400	55,100
Other operating expenses	39,760	30,670
Total Operating Expenses	1,971,237	2,194,647
Operating Income (Loss)	55,892	(159,311)
Non-Operating Revenues:		
Interest earnings	65,351	108,193
Change in Net Assets	121,243	(51,118)
Net Assets at Beginning of Year	808,083	859,201
Net Assets at End of Year	$ 929,326	$ 808,083

As shown in table 2, member premiums decreased by just less than 1.0 percent for fiscal year 2009 compared with the prior year. This decrease was anticipated as lower premium rates were established for the Program due to lower premiums obtained for the stop-loss and excess insurance premiums for fiscal year 2009. The claims expense for fiscal year 2009 was 16.0 percent less than the prior year as the actuarial adjustments to prior year claims estimated decreased significantly. The decrease in liability associated with claims payable from fiscal year 2008 and prior offset the increase in total claim exposure the Program adopted for fiscal year 2009. Other expenses increased due to the increase in the number of claims filed during 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 2009 the cash and cash equivalents of the Program increased by $372,635 over the amount reported at June 30, 2008. As previously mentioned, the increase in the Programs cash and cash equivalents at June 30, 2009 can be associated with the reduction of the Programs investment balance compared to one year ago. As a result, the cash provided by the net investing activities for the year totaled $852,331, primarily through sales of investments.

Contacting the Administration of the Program:

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

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Net Assets
June 30, 2009

Assets:	
Current assets:	
Cash and cash equivalents	$ 826,614
Deposit in escrow account	25,000
Accured interest receivable	4,235
Reinsurance receivable on paid claims	67,158
Total current assets	923,007
Non-current assets:	
Investments	661,468
Total assets	$ 1,584,475
Liabilities:	
Current liabilities:	
Reserve for claims payable	$ 533,514
Unearned member premiums	121,635
Total liabilities	655,149
Net assets:	
Unrestricted	929,326
Total net assets	929,326
Total liabilities and net assets	$ 1,584,475

See accompanying notes to the financial statements.

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2009

Operating revenues:	
Member premiums	$ 2,019,953
Miscellaneous	7,176
Total operating revenues	2,027,129
Operating expenses:	
Claims expenses:	
Incurred claims and claim adjustment expenses	568,970
Reinsurance and insurance premiums	1,063,466
Total claims expenses	1,632,436
Program administrator fees	214,641
Claim processing fees and expenses	84,400
Management fees	17,155
Actuarial and audit fees	11,000
Miscellaneous	11,605
Total operating expenses	1,971,237
Operating income	55,892
Non-operating revenues:	
Interest earnings	65,351
Change in net assets	121,243
Net assets at beginning of year	808,083
Net assets at end of year	$ 929,326

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, 2009

Cash flows from operating activities:	
Cash received for premium contributions	$ 2,096,156
Cash received on insurance recoveries	346,646
Cash received for other purposes	7,176
Cash payments for claim payments	(1,512,954)
Cash payments for excess insurance	(1,063,466)
Cash payments for program administration and claims processing	(330,649)
Cash payments for other expenses	(22,605)
Net cash used for operating activities	(479,696)
Cash flows from investing activities:	
Purchase of investments	(945,010)
Sale of investments	1,735,483
Interest earnings	61,858
Net cash provided by investing activities	852,331
Net increase in cash and cash equivalents	372,635
Cash and cash equivalents at beginning of year	453,979
Cash and cash equivalents at end of year	$ 826,614
Reconciliation of operating income to net cash used for operating activities	
Operating income	$ 55,892
Changes in operating assets and liabilities:	
Increase on reinsurance receivable on paid claims	(59,178)
Decrease in accounts payable	(14,453)
Decrease in reserve for claims payable	(538,160)
Increase in unearned participant contributions	76,203
Total adjustments	(535,588)
Net cash used for operating activities	$ (479,696)

Non-cash investing activity item:

During 2009, the fair value of investments increased by $13,608.

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, 2009, the Program served the insurance needs of 36 public school districts.

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

The Program has chosen to adopt the forms and endorsements of conventional insurance coverage and to purchase specific and aggregate stop loss insurance in excess of a given retention to pay individual and collective losses. Therefore, the individual members are only responsible for their self-insured retention (deductible) amounts that may vary from member to member. See Note 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 Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Program has elected not to apply FASB Statements and interpretations issued after November 30, 1989. The more significant of the Program's accounting policies and practices are described below.

Basis of presentation:

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

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

Measurement focus:

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

Basis of accounting:

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

Cash and cash equivalents:

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

Investments:

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

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

Reserve for claims payable:

The Program has not established claims liabilities on risks except for those that it determined are liabilities which are not covered by excess insurers. For those risks, the Program has established claims liabilities that are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled (case reserve) and of claims that have been incurred but not reported (IBNR reserve), net of estimated salvage and subrogation. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts, particularly for coverage such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual and industry data that reflects past inflation and on other factors and are considered to be appropriate modifiers of past experience. See Notes 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, 2009 is reasonable and reflective of anticipated ultimate experience. However, it is possible that the Program's actual incurred claims and claim adjustment expense will not conform to the assumptions inherent in the determination of the liability. Accordingly, it is reasonably possible that the ultimate settlement of claims and the related claim adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

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

Unearned participant contributions:

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

Net assets:

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

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

As of June 30, 2009, the Program does not have any net assets meeting the definition of "invested in capital assets, net of related debt" or "restricted" net assets.

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

Classification of revenue:

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

Tax status:

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

Estimates:

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

3. Deposits and Investments:

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Program's deposits may not be returned to it. The Council does not have a custodial risk policy. At year-end, the carrying amount of the Program's deposits was $232,851 and the bank balance was $183,761.

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, 2009, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling $1,274,642 including the Program's $183,761, of which $1,024,642 was subject to custodial credit risk as it was uninsured. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values equal to 105 percent or more of all public deposits to be secured by the collateral pool. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution. This pooled collateral covers the Program's uninsured and uncollateralized deposits.

Investments

At June 30, 2009 the investments of the Program consisted of the following investments:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than One Year	One to Three Years	Four to Five Years
Federal Home Loan Mortgage Corp.	$ 661,468	$ -	$ -	$ 661,468
Money Market	593,763	593,763	-	-
Total	$ 1,255,231	$ 593,763	$ -	$ 661,468

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

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

Credit Risk: The Council's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal year 2009, Standard and Poor's rated the Program's investments in the government agency securities at AAA and the money market investment at AAAm.

Concentration of Credit Risk: While no specific limit is placed on any one issuer, the investment policy of the Council requires the portfolio to be diversified in order to minimize potential losses with respect to individual securities. At June 30, 2009, the Program portfolio consisted of the following; 47.3 percent in money market funds and the remaining 52.7 percent was in FHLMC securities.

4. Self-Insured Retention/Excess Insurance:

The Program retains the first $250,000 of each loss for general liability, automobile, crime and surety and property claims. Each member has a maintenance deductible of $1,000 for property, automobile physical damage and crime claims; deductible for legal liability is $5,000 per occurrence. Stop loss insurance is purchased for the Program and is fully funded by member contributions. The stop loss coverage for the years ended June 30, 2009 and 2008 for claims in excess is $1,044,850 and $940,380, respectively. Coverage for boiler and machinery, as well as school leaders errors and omissions are purchased outside of the Program's retention program.

Excess insurance coverage provided by the Program above the $250,000 retention per loss are $300 million policy limit, $5 million in the aggregate for flood and earthquake losses and $6 million for any one occurrence and policy aggregate per member for liability losses. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first $250,000 of any additional covered loss.

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

Premiums of $1,063,466 were paid to excess insurers for the year ended June 30, 2009.

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	
	2009	2008
Claims payable - beginning of year	$ 1,071,674	$ 695,118
Incurred claims and claim adjustments:		
Provision for insured events of the current year	1,044,850	940,380
Change in provision for insured events of prior year	(539,672)	(113,522)
Total incurred claims and claim adjustments	505,178	826,858
Payments:		
Claim payments attributable to claims of current year	832,272	200,324
Claim payments attributable to claims of prior years	211,066	249,978
Total payments	1,043,338	450,302
Claims payable - end of year	$ 533,514	$ 1,071,674

SUPPLEMENTAL SCHEDULES

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

Schedule of Claims Development

Years Ended June 30, 2009, 2008, 2007, 2006, 2005 and 2004

	2009	2008	2007	2006	2005	2004
1. Required contribution and investment revenue:						
Earned (paid contributions)	2,019,953	2,143,529	2,266,213	2,495,685	2,504,020	1,741,712
Ceded (excess insurance)	(1,063,466)	(1,149,880)	(1,328,715)	(1,357,180)	(1,482,947)	(1,010,604)
Net earned	956,487	993,649	937,498	1,138,505	1,021,073	731,108
2. Unallocated expenses:	338,801	250,579	240,406	251,405	211,799	135,667
3. Estimated claims and expenses, end of fiscal year:						
Incurred	2,123,088	1,003,304	895,618	813,016	614,069	423,533
Ceded	(1,078,238)	(62,924)	(115,618)	(23,016)	-	-
Net Incurred	1,044,850	940,380	780,000	790,000	614,069	423,533
4. Net paid claims as of:						
End of fiscal year	832,273	200,324	348,211	174,631	315,012	126,843
One year later		84,933	200,002	231,991	117,672	62,088
Two years later			125,687	49,879	50,777	34,527
Three years later				446	97	1,468
Four years later					-	-
Five years later						-
5. Re-estimated net incurred claims and expense, as of:						
End of fiscal year	1,044,850	940,380	780,000	790,000	614,069	423,533
One year later		481,161	780,000	616,068	587,822	420,425
Two years later			770,850	542,960	537,344	409,344
Three years later				485,029	496,930	224,926
Four years later					483,558	224,926
Five years later						224,926
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:	-	(459,219)	(9,150)	(304,971)	(130,511)	(198,607)

Note:

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

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Reconciliation of Claims Liabilities by Type of Contract
Years Ended June 30, 2009 and 2008

	Fiscal Year 2009		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 913,348	$ 158,326	$ 1,071,674
Incurred claims and claim adjustments:			
Provision for insured events of the current year	397,043	647,807	1,044,850
Change in provision for insured events of prior year	(442,531)	(97,141)	(539,672)
Total incurred claims and claim adjustments	(45,488)	550,666	505,178
Payments:			
Claim payments attributable to claims of current year	190,659	641,613	832,272
Claim payments attributable to claims of prior years	169,308	41,758	211,066
Total payments	359,967	683,371	1,043,338
Claims payable - end of year	$ 507,893	$ 25,621	$ 533,514

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

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 the accompanying financial statements of the Liability, Fleet and Property Insurance Program (the Program) of the Southwestern Ohio Educational Purchasing Council, as of and for the year ended June 30, 2009 and have issued our report thereon dated May 21, 2010, wherein we noted the Program is an enterprise fund within the accounting records of the Southwestern Ohio Educational Purchasing Council. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Program in a separate letter dated May 21, 2010.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 21, 2010

Schedule of Prior Year Financial Findings

For the Year Ended June 30, 2009

Finding 2008-001

An audit adjustment was required to correctly post interest revenue and cash balances in the financial statements due to an understatement of interest receipts by the Program during fiscal year 2008.

Status: Corrected – cash adjustment was made to correct prior year errors during fiscal year 2009.

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

SINCE 1938

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

Mary Taylor, CPA
Auditor of State

**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
JUNE 10, 2010**