

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, 2015





# Dave Yost • Auditor of State

## Committee Members

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

We have reviewed the *Independent 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, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southwestern Ohio Educational Purchasing Council's Liability, Fleet and Property Insurance Program is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

December 18, 2015

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

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November 30, 2015

To the Committee Members  
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, 2015, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liability, Fleet and Property Insurance Program of the Southwestern Ohio Educational Purchasing Council, Montgomery County, Ohio as of June 30, 2015, and the changes in financial position and, 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, 2015, the changes in its financial position, or 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 4 through 7, the schedule of claims development on page 18, and the reconciliation of claims liabilities by type of contract on page 19 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 November 30, 2015 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.

*Rea & 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, 2015

(Unaudited)

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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, 2015. 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, 2015, the Program had 52 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, 2015

(Unaudited)

Total assets of the Program at June 30, 2015 were \$125,527 more than those reported one year prior, a 7 percent increase. The increase in cash and cash equivalents resulted from timing of participant contributions.

Liabilities associated with reserve for claims payable represent 84 percent of the Program's total liabilities reported at June 30, 2015 compared to 96 percent one year prior. The reserve for claims payable decreased by \$102,003 or 6 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 2015 is attributable to reduction in estimated losses anticipated for prior years, in the current year actuary report. The anticipated total loss for the current fiscal year is projected to be \$1.6 million, but was limited in the actuary report to \$1.3 million which is the Program's stop-loss limit established for the policy year. 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.

In fiscal year 2015, 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. Due to the decrease in the number of participating members, the Program had to decrease the amount at which the aggregate stop-loss insurance policy begins at \$1,284,801 for the fiscal year compared to the \$1,379,177 limit established for the prior year.

Table 1 provides a summary of the Program's net position for fiscal years 2015 and 2014.

**TABLE 1  
NET POSITION**

	2015	2014
<u>Assets:</u>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 635,483	\$ 520,108
Other assets	0	2,005
<i>Non-Current Assets:</i>		
Investments	1,306,996	1,294,839
Total Assets	<u>1,942,479</u>	<u>1,816,952</u>
<u>Liabilities:</u>		
<i>Current Liabilities:</i>		
Reserve for claims payable	1,572,476	1,674,479
Other liabilities	297,668	70,249
Total Liabilities	<u>1,870,144</u>	<u>1,744,728</u>
<u>Net Position:</u>		
Unrestricted (Deficit)	<u>72,335</u>	<u>72,224</u>
Total Net Position	<u>\$ 72,335</u>	<u>\$ 72,224</u>

**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, 2015

(Unaudited)

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

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the Program's net position changed during the year. During fiscal year 2015, the Program reported an increase in net position of \$111, which resulted in the Program ending the year with a net position of \$72,335. Total expenses increased by \$625,952, or 18 percent, compared to those reported for the prior year. Incurred claims and adjustment expense were \$641,005 more than the prior year as the estimated anticipated losses for prior fiscal years were more 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. Increases in the cost of reinsurance premiums also contributed to the increase in total costs. Reinsurance premiums for fiscal year 2015 were \$78,745 more than the amount reported for the prior year.

Table 2 shows the changes in net position for the year ended June 30, 2015, as well as revenue and expense comparisons to fiscal year 2014.

**TABLE 2  
CHANGES IN NET POSITION**

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues:</u>		
Member premiums	\$ 3,824,404	\$ 3,571,793
Subrogation	278,346	46,871
Total Operating Revenues	<u>4,102,750</u>	<u>3,618,664</u>
<u>Operating Expenses:</u>		
Incurred claims and claim adjustment expense	1,566,925	925,920
Reinsurance and insurance premiums	2,129,961	2,051,216
Program administrator fees	287,040	334,873
Claims processing fees and expenses	43,150	106,500
Other operating expenses	60,714	43,329
Total Operating Expenses	<u>4,087,790</u>	<u>3,461,838</u>
Operating Income	<u>14,960</u>	<u>156,826</u>
<u>Non-Operating Revenues (Expenses):</u>		
Investment earnings (loss)	<u>(14,849)</u>	<u>15,622</u>
Change in Net Position	111	172,448
Net Position at Beginning of Year	<u>72,224</u>	<u>(100,224)</u>
Net Position at End of Year	<u>\$ 72,335</u>	<u>\$ 72,224</u>

**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, 2015

(Unaudited)

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As shown in Table 2 above, member premiums increased by \$205,740, or 6 percent, for fiscal year 2015 over the prior year as the Program. Member premiums are reviewed annually to determine the need to provide additional capital to settle expected claims for the year.

The Statement of Cash Flows:

The Statement of Cash Flows allows the reader of the financial statements to assess the Program's adequacy or ability to generate sufficient cash flow to meet its obligations in a timely manner. During fiscal year 2015 the cash and cash equivalents of the Program increased by \$115,375 over the amount reported at June 30, 2014, or 23 percent. Program funds invested at year-end were comparable with the amount reported one year prior.

The operating activities of the Program provided \$140,376 of cash and cash equivalents during the current fiscal year as cash receipts (primarily premium contributions) exceeded cash payments made for operating purposes.

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 Funds

June 30, 2015

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**Assets:**

*Current assets:*

Cash and cash equivalents	\$ 610,483
Deposit in escrow account	<u>25,000</u>

<i>Total current assets</i>	<u>635,483</u>
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*Non-current assets:*

Investments	<u>1,306,996</u>
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Total assets	<u><u>\$ 1,942,479</u></u>
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**Liabilities:**

*Current liabilities:*

Reserve for claims payable	\$ 1,572,476
Unearned member premiums	<u>297,668</u>

Total liabilities	<u>1,870,144</u>
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**Net position:**

Unrestricted	<u>72,335</u>
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Total net position	<u>72,335</u>
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Total liabilities and net position	<u><u>\$ 1,942,479</u></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 Funds

Year Ended June 30, 2015

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<b><u>Operating revenues:</u></b>	
Member premiums	\$ 3,824,404
Subrogation	278,346
	<hr/>
Total operating revenues	4,102,750
	<hr/>
<b><u>Operating expenses:</u></b>	
<i>Claims expenses:</i>	
Incurred claims and claim adjustment expenses	1,566,925
Reinsurance and insurance premiums	2,129,961
Total claims expenses	<hr/> 3,696,886
Program administrator fees	287,040
Claim processing fees and expenses	43,150
Management fees	44,964
Actuarial and audit fees	<hr/> 15,750
Total operating expenses	<hr/> 4,087,790
	<hr/>
<b>Operating income</b>	<b>14,960</b>
	<hr/>
<b><u>Non-operating revenues (expenses):</u></b>	
Investment loss	<hr/> (14,849)
	<hr/>
<b>Change in net position</b>	<b>111</b>
	<hr/>
<b>Net position at beginning of year</b>	<b>72,224</b>
	<hr/>
<b>Net position at end of year</b>	<b>\$ 72,335</b>
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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 Cash Flows

Proprietary Funds

Year Ended June 30, 2015

**Cash flows from operating activities:**

Cash received for premium contributions	\$ 4,051,823
Cash received on subrogation	278,346
Cash payments for claim payments	(1,668,928)
Cash payments for excess insurance	(2,129,961)
Cash payments for program administration and claims processing	(330,190)
Cash payments for other expenses	<u>(60,714)</u>
Net cash provided by operating activities	<u>140,376</u>

**Cash flows from investing activities:**

Interest earnings	<u>(25,001)</u>
Net cash used in investing activities	<u>(25,001)</u>

**Net increase in cash and cash equivalents** 115,375

**Cash and cash equivalents at beginning of year** 495,108

**Cash and cash equivalents at end of year** \$ 610,483

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

Operating income	\$ 14,960
<i>Changes in operating assets and liabilities:</i>	
Decrease in reserve for claims payable	(102,003)
Increase in unearned participant contributions	<u>227,419</u>
Total adjustments	<u>125,416</u>
Net provided by operating activities	<u><u>\$ 140,376</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**

Notes to the Basic Financial Statements

June 30, 2015

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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, 2015, the Program served the insurance needs of 52 participating entities.

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

The Program has chosen to adopt the forms and endorsements of conventional insurance coverage and to purchase specific and aggregate stop loss insurance in excess of a given retention to pay individual and collective losses. Therefore, the individual members are only responsible for their self-insured retention (deductible) amounts that may vary from member to member. See Note 4 for further explanation.

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

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

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

**Montgomery County, Ohio**

Notes to the Basic Financial Statements

June 30, 2015

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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 and all liabilities associated with the operation of the Program are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Program finances and meets the cash flow needs of its enterprise activity.

Basis of accounting:

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

Cash and cash equivalents:

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

Investments:

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

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

**Montgomery County, Ohio**

Notes to the Basic Financial Statements

June 30, 2015

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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, 2015 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, 2015

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Net position:

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

Investment in net capital assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that do not meet the definition of “restricted” or “investment in net capital assets”.

As of June 30, 2015, the Program does not have any net position meeting the definition of “investment in net capital assets” or “restricted” net position, as noted above.

In the event of the termination of the Program, net position, if available, will be used to settle all claims and other obligations incurred by the Program, as well as establishing an appropriate reserve to settle any future claims. Any remaining net position will become property of Council’s general fund.

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, 2015

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 \$610,483.

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, 2015, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling \$35,194,911, including \$610,483 of the Program's deposit. Of the Council's bank deposits, Federal Deposit Insurance Corporation (FDIC) covered \$250,000. In addition, FDIC covers the \$25,000 held in the claims settlement escrow account. The State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values equal to 105 percent or more of all public deposits to be secured by the collateral pool. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution. This pooled collateral collateralizes the Council's uninsured deposits of \$34,944,911.

Investments

At June 30, 2015 the investments of the Program consisted of the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 6 months	13-18 Months	More Than 24 Months
Federal Home Loan Mortgage Corp.	\$ 250,990	\$250,990	\$ 0	\$ 0
Federal Farm Credit Bank	250,352	0	250,352	0
Federal National Mortgage Association	498,981	250,621	0	248,360
Money Market	306,673	306,673	0	0
<b>Total</b>	<b>\$1,306,996</b>	<b>\$808,284</b>	<b>\$ 250,352</b>	<b>\$248,360</b>

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

**Montgomery County, Ohio**

Notes to the Basic Financial Statements

June 30, 2015

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

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

*Credit Risk:* The Council's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal year 2015, Standard and Poor's rated the Program's investments in the government agency securities at AA+ and the money market investment at AAAm.

*Concentration of Credit Risk:* While no specific limit is placed on any one issuer, the investment policy of the Council requires the portfolio to be diversified in order to minimize potential losses with respect to individual securities. At June 30, 2015, the Program portfolio consisted of the following; 38 percent in Federal National Mortgage Association (FNMA) securities, 19 percent in Federal Farm Credit Bank (FFCB), 19 percent in Federal Home Loan Mortgage Corporation (FHLMC) securities, and 24 percent in money market funds.

4. Self-Insured Retention/Excess Insurance:

The Program retained the first \$150,000 of each loss for general liability, automobile, crime and surety and property claims for fiscal year 2015 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 \$1,284,801 and \$1,379,177 for fiscal year 2015 and 2014, 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); \$6 million per occurrence/aggregate per district for excess liability (general liability, automobile, school board legal, sexual abuse and molestation, and employee benefits); \$250 million per occurrence for boiler and equipment; \$10 million policy aggregate/\$1 million per incident/\$1 million aggregate per district for pollution legal liability; and \$500,000 each and every loss for criminal acts coverage. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first \$150,000 of any additional covered loss.

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

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

**Montgomery County, Ohio**

Notes to the Basic Financial Statements

June 30, 2015

Premiums of \$2,129,961 were paid to excess insurers for the year ended June 30, 2015.

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	
	2015	2014
Claims payable - beginning of year	\$ 1,674,479	\$ 1,865,704
Incurred claims and claim adjustments:		
Provision for insured events of the current year	1,284,801	1,379,177
Change in provision for insured events of prior year	282,124	(374,943)
Total incurred claims and claim adjustments	1,566,925	1,004,234
Payments:		
Claim payments attributable to claims of current year	390,003	483,244
Claim payments attributable to claims of prior years	1,278,925	712,215
Total payments	1,668,928	1,195,459
Claims payable - end of year	\$ 1,572,476	\$ 1,674,479

6. Contingencies – Litigation:

The Program is party to various legal proceedings, which normally occur in the course of claims processing operations. Such litigation is associated with seeking subrogation judgments against responsible parties as well as representing participating districts against claims filed against them. Management believes that the outcome of such claims has been adequately accrued in the claims reserve liability and any excess will be covered by insurance carriers that provide excess insurance and reinsurance contracts. Nevertheless, due to uncertainties in the settlement process, it is possible the actual outcome of these claims could change materially from the results currently expected.

7. Change in Accounting Principles:

For the fiscal year ended June 30, 2015, the Program has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The implementation of these Standards 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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
1. Required contribution and investment revenue:										
Earned (paid contributions) and interest	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	2,495,685
Ceded (excess insurance)	(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)	(1,357,180)
Net earned	1,679,594	1,527,608	1,442,038	1,208,384	1,047,867	1,022,478	956,487	993,649	937,498	1,138,505
2. Unallocated expenses:	390,904	486,702	468,010	418,683	473,774	340,247	338,801	250,579	240,406	251,405
3. Estimated claims and expenses, end of fiscal year:										
Incurred	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	813,016
Ceded	(356,302)	(111,536)	0	(52,042)	(54,390)	0	(1,078,238)	(62,924)	(115,618)	(23,016)
Net Incurred	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000
4. Net paid claims as of:										
End of fiscal year	390,003	483,244	175,084	167,001	197,649	124,610	832,273	200,324	348,211	174,631
One year later		139,594	292,406	489,405	441,730	427,282	496,847	84,933	200,002	406,622
Two years later			343,374	303,361	126,678	75,924	(25,880)	93,489	125,687	456,501
Three years later				64,466	119,232	124,367	(257,666)	87,739	6,915	456,947
Four years later					105,879	0	8,679	(100)	(12,439)	460,474
Five years later						0	(2,258)	327	5,746	462,291
Six years later							0	(526)	8,761	473,484
Seven years later								(1,069)	0	473,484
Eight years later									0	473,484
Nine years later										473,484
5. Re-estimated net incurred claims and expense, as of:										
End of fiscal year	1,284,801	1,379,177	1,197,920	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000
One year later		947,232	887,709	1,107,276	1,124,497	991,091	1,044,850	481,161	780,000	616,068
Two years later			935,498	1,125,198	1,093,498	926,413	1,044,850	562,557	770,850	542,960
Three years later				1,130,436	1,083,432	824,275	1,044,850	467,510	710,847	485,029
Four years later					1,118,744	752,183	1,044,850	467,410	702,762	477,397
Five years later						752,183	1,044,850	466,760	675,411	524,104
Six years later							1,044,850	468,082	682,883	473,484
Seven years later								467,135	682,883	473,484
Eight years later									682,883	473,484
Nine years later										473,484
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:		(431,945)	(262,422)	(5,564)	(5,753)	(96,611)	0	(473,245)	(97,117)	(316,516)

**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, 2015 and 2014

	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	<u>\$ 693,052</u>	<u>\$ 879,424</u>	<u>\$ 1,572,476</u>
	Fiscal Year 2014		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	\$ 1,128,218	\$ 737,486	\$ 1,865,704
Incurred claims and claim adjustments:			
Provision for insured events of the current year	506,346	872,831	1,379,177
Change in provision for insured events of prior year	(237,447)	(137,496)	(374,943)
Total incurred claims and claim adjustments	268,899	735,335	1,004,234
Payments:			
Claim payments attributable to claims of current year	63,012	420,232	483,244
Claim payments attributable to claims of prior years	496,851	215,364	712,215
Total payments	559,863	635,596	1,195,459
Claims payable - end of year	<u>\$ 837,254</u>	<u>\$ 837,225</u>	<u>\$ 1,674,479</u>

November 30, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated November 30, 2015, 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 entity'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 31, 2015**