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

Basic Financial Statements

June 30, 2012

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Southwestern Ohio Educational Purchasing Council - Liability, Fleet and Property Insurance Program, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

March 27, 2013

This page intentionally left blank.

TABLE OF CONTENTS

This page intentionally left blank.

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, 2012, 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, 2012 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, 2012, 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 February 15, 2013, 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.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-6), the Schedule of Claims Development (page 18), and the Reconciliation of Claims Liabilities by Type of Contract (page 19) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
February 15, 2013

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, 2012. 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, 2012, the Program had 46 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, receivables from reinsurance and investments. Liabilities consist of reserves for claims payable and unearned participant contributions.

Total assets of the Program at June 30, 2012 were $297,914 more than those reported one year prior, a 15.9 percent increase. The majority of the increase in assets is attributable to a loss suffered at one covered district as the result of a hailstorm which significantly exceeded the Program's self-insured retention (SIR) limit of $250,000 per loss. While the Program has paid the majority of claims submitted for this loss in fiscal year 2012, reimbursement for some of those payments will not occur until subsequent fiscal years and therefore has increased the reinsurance receivable amount reported for the current year. The remaining portion of the increase in assets relates to cash on hand at year end, which was nearly $70,000 higher than that reported at the end of the previous year.

Liabilities associated with reserve for claims payable represent 96.4 percent of the Program's total liabilities reported at June 30, 2012 compared to 96.7 percent one year prior. The reserve for claims payable increased by $550,147 or 45.7 percent compared with the amount reported for the prior year. The reserve for claims payable are liabilities carried for net unpaid claims, both reported and incurred but unreported existing at the end of the fiscal year. The reserve for claims payable is established annually with the assistance of an outside actuary based on statistical models. The increase in the reserve for claims payable for fiscal year 2012 is attributable to the amount of claims actually paid during fiscal year 2012 being less total anticipated total loss for the year. The anticipated total loss for the current fiscal year is projected to be at stop-loss limit established for the policy year, which represents the third year in the last four that anticipated losses are estimated to be at the annual aggregate retention limits established. As a result, a larger amount of the projected total loss amount remained unpaid at June 30, 2012 compared with the outstanding total loss projected at June 30, 2011.

In fiscal year 2012, the Program retained the first $250,000 of each loss for property and liability coverage, the same as the year before. Furthermore, due to the stability in the number of participating members, the Program was able to raise the amount at which the aggregate stop-loss insurance policy begins to $1,136,000 for the fiscal year compared to the $1,124,497 limit established for the prior year.

Table 1 provides a summary of the Program's net assets for fiscal years 2012 and 2011.

TABLE 1
NET ASSETS

	2012	2011
Assets:		
Current Assets:		
Cash and cash equivalents	$ 464,739	$ 395,165
Other assets	423,370	208,829
Non-Current Assets:		
Investments	1,285,399	1,271,600
Total Assets	2,173,508	1,875,594
Liabilities:		
Current Liabilities:		
Reserve for claims payable	1,755,028	1,204,881
Other liabilities	66,251	41,820
Total Liabilities	1,821,279	1,246,701
Net Assets:		
Unrestricted	352,229	628,893
Total Net Assets	$ 352,229	$ 628,893

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 2012, the Program reported a decrease in net assets of $276,664 or 44.0 percent of the total net assets reported for June 30, 2011. With the necessary reserve, as determined by the actuary, included as a liability, the unrestricted net assets totaled $352,229 year end or approximately 11.8 percent of the Program's operating expenses reported for year. Despite a decrease in operating expenses totaling $374,486, or 12.1 percent, the Program realized an operating loss of $288,601 for the fiscal year. However, the operating loss incurred for fiscal year 2012 was $485,773 (62.7 percent) less than the operating loss reported for the prior fiscal year.

Table 2 shows the changes in net assets for the year ended June 30, 2012, as well as revenue and expense comparisons to fiscal year 2011.

TABLE 2
CHANGES IN NET ASSETS

	2012	2011
Operating Revenues:		
Member premiums	$ 2,625,044	$ 2,513,757
Total Operating Revenues	2,625,044	2,513,757
Operating Expenses:		
Claims expense	2,494,962	2,814,357
Program administrator fees	282,936	270,090
Claims processing fees and expenses	88,500	92,925
Other operating expenses	47,247	110,759
Total Operating Expenses	2,913,645	3,288,131
Operating Loss	(288,601)	(774,374)
Non-Operating Revenues:		
Interest earnings	11,937	6,003
Change in Net Assets	(276,664)	(768,371)
Net Assets at Beginning of Year	628,893	1,397,264
Net Assets at End of Year	$ 352,229	$ 628,893

As shown in table 2, member premiums increased by a modest 4.4 percent for fiscal year 2012 over the prior year as the Program was able to negotiate favorable premiums with excess insurance carriers for the policy year. The claims expense for fiscal year 2012 was 11.4 percent less than the prior year despite the fact that claims anticipated for the current year are expected to reach the aggregate retention limit established for the year as adjustments for anticipate losses of prior policy years were reduced to some degree based on updated data. The remaining $418,683 (14.4 percent) of expenses is associated with the management of the Program.

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 2012 the cash and cash equivalents of the Program increased by $69,574 over the amount reported at June 30, 2011. The increase in the Programs cash and cash equivalents at June 30, 2012 can be attributed to cash receipts of the fiscal year exceeding cash disbursements. Program fund invested at year-end were comparable with the amount reported one year prior.

The operating activities of the Program provided $71,436 of cash and cash equivalents during the year ended June 30, 2012.

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, 2012

Assets:		
Current assets:		
Cash and cash equivalents	$	439,739
Deposit in escrow account		25,000
Reinsurance receivable on paid claims		423,370
Total current assets		888,109
Non-current assets:		
Investments		1,285,399
Total assets	$	2,173,508
Liabilities:		
Current liabilities:		
Reserve for claims payable	$	1,755,028
Unearned member premiums		66,251
Total liabilities		1,821,279
Net assets:		
Unrestricted		352,229
Total net assets		352,229
Total liabilities and net assets	$	2,173,508

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, 2012

Operating revenues:	
Member premiums	$ 2,625,044
Total operating revenues	2,625,044
Operating expenses:	
Claims expenses:	
Incurred claims and claim adjustment expenses	1,066,365
Reinsurance and insurance premiums	1,428,597
Total claims expenses	2,494,962
Program administrator fees	282,936
Claim processing fees and expenses	88,500
Management fees	20,197
Property appraisal fees	6,000
Actuarial and audit fees	21,050
Total operating expenses	2,913,645
Operating loss	(288,601)
Non-operating revenues:	
Interest earnings	11,937
Change in net assets	(276,664)
Net assets at beginning of year	628,893
Net assets at end of year	$ 352,229

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, 2012

Cash flows from operating activities:	
Cash received for premium contributions	$ 2,649,475
Cash received on insurance recoveries	1,296,660
Cash received for participant deductibles	4,281
Cash payments for claim payments	(2,028,700)
Cash payments for excess insurance	(1,428,597)
Cash payments for program administration and claims processing	(371,436)
Cash payments for other expenses	(50,247)
Net cash used in operating activities	71,436
Cash flows from investing activities:	
Purchase of investments	(1,511,527)
Sale of investments	1,500,000
Interest earnings	9,665
Net cash used in investing activities	(1,862)
Net decrease in cash and cash equivalents	69,574
Cash and cash equivalents at beginning of year	370,165
Cash and cash equivalents at end of year	$ 439,739
Reconciliation of operating income to net cash used in operating activities	
Operating loss	$ (288,601)
Changes in operating assets and liabilities:	
Increase on reinsurance receivable on paid claims	(214,541)
Increase in reserve for claims payable	550,147
Increase in unearned participant contributions	24,431
Total adjustments	360,037
Net used in operating activities	$ 71,436

Non-cash investing activity item:

During fiscal year 2012, the fair value of investments increased by $2,272.

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, 2012, the Program served the insurance needs of 46 participating entities.

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

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

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

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

2. Summary of Accounting Policies:

The financial statements of the Program have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for the establishing governmental accounting and financial reporting principles. The 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, 2012 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, 2012, 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 besides that established by State law. At year-end, the carrying amount of the Program's deposits was $464,739.

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, 2012, the Southwestern Ohio Educational Purchasing Council had bank deposits totaling $10,039,174 including the Program's $464,739, all of which was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). 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 any Program deposits which are uninsured and uncollateralized deposits.

Investments

At June 30, 2012 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
FHLB Bond	$ 250,033	$ 250,033	$ -	$ -
FFCB Bond	250,430	-	250,430	-
FNMA Bond	500,600	-	-	500,600
FNMA Note	250,147	-	250,147	-
Money Market	34,189	34,189	-	-
Total	$ 1,285,399	$ 284,222	$ 500,577	$ 500,600

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 2012, 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, 2012, the Program portfolio consisted of the following; 58 percent in Federal National Mortgage Association (FNMA) securities, 20 percent in Federal Farm Credit Bank (FFCB) securities, 19 percent in Federal Home Loan Bank (FHLB) securities, and 3 percent in money market funds.

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 coverage amounts were established for claims in excess of $1,136,000 and $1,124,497 for fiscal year 2012 and 2011, respectively. Coverage for boiler and machinery, as well as school leader's errors and omissions are purchased outside of the Program's retention program.

Excess insurance coverage provided by the Program above the $250,000 retention per loss are $350 million policy limit ($10 million in the aggregate for flood and $25 million in aggregate for earthquake), $1 million per occurrence for auto liability, and $1 million per occurrence/ $3 million annual aggregate for general liability losses in the primary coverage with a $5 million per occurrence/annual aggregate coverage in excess liability coverage. All coverage limits are applied on a per member basis. 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 $1,428,597 were paid to excess insurers for the year ended June 30, 2012.

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	
	2012	2011
Claims payable - beginning of year	$ 1,204,882	$ 670,681
Incurred claims and claim adjustments:		
Provision for insured events of the current year	1,136,000	1,124,497
Change in provision for insured events of prior year	(142,026)	85,872
Total incurred claims and claim adjustments	993,974	1,210,369
Payments:		
Claim payments attributable to claims of current year	167,001	197,649
Claim payments attributable to claims of prior years	276,827	478,519
Total payments	443,828	676,168
Claims payable - end of year	$ 1,755,028	$ 1,204,882

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.

SUPPLEMENTAL SCHEDULES

SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL
LIABILITY, FLEET AND PROPERTY INSURANCE PROGRAM
Schedule of Claims Development
Years Ended June 30, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005 and 2004

	2012	2011	2010	2009	2008	2007	2006	2005	2004
1. Required contribution and investment revenue:									
Earned (paid contributions)	2,636,981	2,521,236	2,209,885	2,019,953	2,143,529	2,266,213	2,495,685	2,504,020	1,741,712
Ceded (excess insurance)	(1,428,597)	(1,473,369)	(1,187,407)	(1,063,466)	(1,149,880)	(1,328,715)	(1,357,180)	(1,482,947)	(1,010,604)
Net earned	1,208,384	1,047,867	1,022,478	956,487	993,649	937,498	1,138,505	1,021,073	731,108
2. Unallocated expenses:	418,683	473,774	340,247	338,801	250,579	240,406	251,405	211,799	135,667
3. Estimated claims and expenses, end of fiscal year:									
Incurred	1,188,042	1,178,887	848,794	2,123,088	1,003,304	895,618	813,016	614,069	423,533
Ceded	(52,042)	(54,390)	-	(1,078,238)	(62,924)	(115,618)	(23,016)	-	-
Net Incurred	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000	614,069	423,533
4. Net paid claims as of:									
End of fiscal year	167,001	197,649	124,610	832,273	200,324	348,211	174,631	315,012	126,843
One year later		441,730	427,282	496,847	84,933	200,002	231,991	117,672	62,088
Two years later			75,924	(25,880)	93,489	125,687	49,879	50,777	34,527
Three years later				(257,666)	87,739	6,915	446	97	1,468
Four years later					(100)	(12,439)	3,527	-	-
Five years later						5,746	1,817	-	-
Six years later							11,193	-	-
Seven years later								-	-
Eight years later									-
5. Re-estimated net incurred claims and expense, as of:									
End of fiscal year	1,136,000	1,124,497	848,794	1,044,850	940,380	780,000	790,000	614,069	423,533
One year later		1,124,497	991,091	1,044,850	481,161	780,000	616,068	587,822	420,425
Two years later			926,413	1,044,850	562,557	770,850	542,960	537,344	409,344
Three years later				1,044,850	467,510	710,847	485,029	496,930	224,926
Four years later					467,410	702,762	477,397	483,558	224,926
Five years later						675,411	524,104	483,558	224,926
Six years later							473,484	483,558	224,926
Seven years later								483,558	224,926
Eight years later									224,926
6. Increase(decrease) in estimated incurred claims and expenses from end of policy year:	-	-	77,619	-	(472,970)	(104,589)	(316,516)	(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, 2012 and 2011

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

	Fiscal Year 2011		
	Casualty Liability	Property Liability	Total
Claims payable - beginning of year	$ 743,088	$ (72,407)	$ 670,681
Incurred claims and claim adjustments:			
Provision for insured events of the current year	516,596	607,901	1,124,497
Change in provision for insured events of prior year	73,870	12,002	85,872
Total incurred claims and claim adjustments	590,466	619,903	1,210,369
Payments:			
Claim payments attributable to claims of current year	71,904	125,745	197,649
Claim payments attributable to claims of prior years	338,317	140,202	478,519
Total payments	410,221	265,947	676,168
Claims payable - end of year	$ 923,333	$ 281,549	$ 1,204,882

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, 2012 and have issued our report thereon dated February 15, 2013, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that be deficiencies, 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 a certain matter that we have reported to management of the Program in a separate letter dated February 15, 2013.

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
February 15, 2013

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

Dave Yost • Auditor of State

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

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 9, 2013