

**METROPOLITAN  
EDUCATIONAL COUNCIL  
LIABILITY, FLEET & PROPERTY PROGRAM  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2010 AND 2009**





# Dave Yost • Auditor of State

January 18, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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

DAVE YOST  
Auditor of State

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Mary Taylor, CPA  
Auditor of State

Committee Members  
Metropolitan Educational Council Liability, Fleet & Property Program  
2100 Citygate Drive  
Columbus, Ohio 43219

We have reviewed the *Independent Auditors' Report* of the Metropolitan Educational Council Liability, Fleet & Property Program, Franklin County, prepared by Gilmore, Jasion & Mahler, LTD, for the audit period July 1, 2009 through June 30, 2010. 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 Metropolitan Educational Council Liability, Fleet & Property Program is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 6, 2011

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## GILMORE, JASION & MAHLER, LTD

### INDEPENDENT AUDITORS' REPORT

Committee Members  
Metropolitan Educational Council  
Liability, Fleet and Property Program  
Columbus, Ohio

We have audited the balance sheets in liquidation of the Metropolitan Educational Council Liability, Fleet and Property Program (the Program) of the Metropolitan Educational Council, as of June 30, 2010 and 2009, the related statements of revenues, expenses, and changes in net assets and cash flows in liquidation for the years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the Program are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the Metropolitan Educational Council that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the Metropolitan Educational Council as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 7 to the financial statements, the Governing Board of the Metropolitan Educational Council voted to terminate the Program effective June 30, 2007 due to insufficient participation. The Governing Board of the Metropolitan Educational Council approved a plan of liquidation June 30, 2007, and the Program commenced liquidation July 1, 2007. As a result, the Program has changed its basis of accounting for periods subsequent to June 30, 2007, from the going-concern basis to a liquidation basis.



In our opinion, the financial statements referred to above fairly present, in all material respects, the respective financial position in liquidation of the business-type activities of the Metropolitan Educational Council Liability, Fleet and Property Program as of June 30, 2010 and 2009, and the respective changes in its revenues, expenses and net assets in liquidation and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America applied on the bases described in the preceding paragraphs.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010 on our consideration of the Program's internal control over financial reporting and 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 the internal control over financial reporting or on 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 audits.

Generally accepted accounting principles also require the Program to include Management's Discussion and Analysis for the year ended June 30, 2010. The Program has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gilmore, Jason & Mahler, LTD*

November 18, 2010

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
BALANCE SHEETS  
June 30, 2010 and June 30, 2009 (Liquidation Basis)**

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Fund cash balance	\$ 125,401	\$ 146,092
Investments	207,746	201,889
Reimbursement claims receivable	50,000	3,333
Advances to third party administrator	27,576	29,464
Total assets	\$ 410,723	\$ 380,778
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Loss reserves	\$ 77,778	\$ 94,877
Accrued professional fees	12,275	24,275
Total liabilities	90,053	119,152
<b>Net assets in liquidation</b>	320,670	261,626
Total liabilities and net assets in liquidation	\$ 410,723	\$ 380,778

The accompanying notes are an integral part of these financial statements.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
STATEMENTS OF CHANGES IN REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
For the Years Ended June 30, 2010 and June 30, 2009 (Liquidation Basis)**

	<u>2010</u>	<u>2009</u>
<b>Operating revenues</b>		
Claims reimbursement revenue	\$ 70,870	\$ 3,333
Total operating revenues	<u>70,870</u>	<u>3,333</u>
<b>Operating (revenue) expenses</b>		
Loss and loss adjustment expense (credit)	17,172	(17,535)
Change in liquidation estimate	200	675
Professional fees	344	105
Miscellaneous	(33)	313
Total operating (revenue) expenses	<u>17,683</u>	<u>(16,442)</u>
Operating income	53,187	19,775
<b>Non-operating revenue</b>		
Interest income	<u>5,857</u>	<u>4,071</u>
Change in net assets in liquidation	59,044	23,846
<b>Net assets in liquidation</b>		
Beginning of year	261,626	237,780
End of year	<u>\$ 320,670</u>	<u>\$ 261,626</u>

The accompanying notes are an integral part of these financial statements.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2010 and June 30, 2009 (Liquidation Basis)**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Cash received from insurance reimbursements	\$ 24,203	\$ 10,376
Cash paid for claims and insurance premiums	(32,383)	(48,843)
Cash paid for vendors and others	(12,511)	(13,136)
Net cash used in operating activities	<u>(20,691)</u>	<u>(51,603)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(5,857)	(200,000)
Interest received on cash and cash equivalents	5,857	2,182
Net cash used in investing activities	<u>0</u>	<u>(197,818)</u>
Net decrease in cash and cash equivalents	(20,691)	(249,421)
Cash and cash equivalents, beginning of year	<u>146,092</u>	<u>395,513</u>
Cash and cash equivalents, end of year	<u>\$ 125,401</u>	<u>\$ 146,092</u>
<b>Reconciliation of operating income to net cash used in operating activities</b>		
Operating income	\$ 53,187	\$ 19,775
Changes in operating assets and liabilities:		
Advances to third party administrator	1,888	(9,909)
Reimbursement claims receivable	(46,667)	7,043
Loss reserves	(17,099)	(56,469)
Accrued professional fees	(12,000)	(12,043)
Net cash used in operating activities	<u>\$ (20,691)</u>	<u>\$ (51,603)</u>

The accompanying notes are an integral part of these financial statements.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**Note 1—Description of the organization**

The Metropolitan Educational Council, Franklin County, Ohio, (MEC) is a not-for-profit regional council of governments established under Chapter 167 of the Ohio Revised Code. The regional council of governments is directed by a twenty-seven member Governing Board. The regional council of governments provides educational services to the youth and adults in Franklin County and surrounding areas by the cooperative action of the membership.

The Metropolitan Educational Council Liability, Fleet and Property Program (MEC LFP Program) was organized in 2004 as authorized by Section 2744.081 of the Ohio Revised Code. Pursuant to Section 2744.081 of the Ohio Revised Code, the MEC LFP Program is a Committee of the MEC, a consortium of school districts and related agencies formed for the public purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the MEC LFP 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 MEC LFP Program and its administrator.

The MEC LFP 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 MEC LFP Program has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the coverage provided in excess of the member's deductible.

The MEC LFP 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 6 for further explanation.

The MEC LFP Program retains the first \$100,000 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. Stop loss insurance is purchased for the MEC LFP Program and is fully funded by Member contributions. The Stop loss coverage for the year ended June 30, 2007 (the last year of the program) was for claims in excess of \$444,401. Coverage for boiler & machinery and school leaders' errors & omissions are purchased outside of the MEC LFP Program's retention program.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
JUNE 30, 2010 AND 2009**

**Note 1—Description of the organization-continued**

Specialty Claims Services, Inc. provides claims adjusting and administrative services to the MEC LFP Program. In accordance with the agreement, Specialty Claims performs all policy management, billing, claims management and payment functions for the MEC LFP Program, and is paid a fee based on the number of claims processed. Specialty Claims does not have a service auditor's report for controls placed in operations or a service auditors' report on controls placed in operation and their operating effectiveness (SAS 70 Type I or Type II), however, management believes that Specialty Claims Services, Inc. outside processing function is operating effectively.

Due to the continued decline in participants, the Program was terminated by the Governing Council effective June 30, 2007.

The MEC LFP Program is comprised exclusively of Ohio educational subdivisions. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of purchasing excess and stop-loss insurance coverage. See Note 6 for further discussion.

**Note 2—Summary of significant accounting policies**

**Basis of accounting**

Prior to July 1, 2007, the financial statements were prepared on the accrual basis of accounting whereby revenues are accounted for as earned and expenses as incurred. As discussed in Notes 1 and 7 to the accompanying financial statements, the MEC Governing Council elected on June 30, 2007 to terminate the Program. In accordance with accounting principles generally accepted in the United States of America, the Program changed its basis of accounting effective July 1, 2007 from the ongoing concern basis used in presenting the 2007 financial statements to the liquidation basis used in presenting the 2008, 2009 and 2010 financial statements. All transactions are accounted for in a single enterprise fund.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Council follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) topics issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements. The Program also has the option to apply FASB ASC topics issued after November 30, 1989, subject to this same limitation. The Program has elected to apply these FASB ASC Topics.

The Program follows the provisions of Government Accounting Standards Board (GASB) Statement No. 10, "Accounting and Reporting for Risk Financing and Related Insurance Issues" and GASB Statement No. 30, "Risk Financing Omnibus, An Amendment of GASB 10," as applicable.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
JUNE 30, 2010 AND 2009**

**Note 2—Summary of significant accounting policies-continued**

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 periods. Actual results could differ from those estimates.

**Cash and cash equivalents**

MEC is custodian for the MEC LFP Program's cash. MEC LFP Program's assets are held in the MEC's cash and investment pool, and are valued at fair value. The fair value of the position in the pool is the same as the value of the pool shares.

For cash flow purposes, the MEC LFP Program considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Loss reserves**

The MEC LFP Program has not established claims liabilities on reinsured risks except for those that it determined are liabilities which are not covered by excess insurers as further discussed in Note 6. For those risks, the MEC LFP 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" reserves) and of claims that have been incurred but not reported ("IBNR" reserves), 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 coverages 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 5 and 6 for further discussion.

The methods of making such estimates and establishing the ultimate liability for losses and loss adjustment expenses are reviewed regularly. Management believes that the estimates of the ultimate liability for losses and loss adjustment expenses as of June 30, 2010 and 2009 are reasonable and reflective of anticipated ultimate experience. However, it is possible that the MEC LFP Program's actual incurred losses and loss adjustment expenses will not conform to the assumptions inherent in the determination of the liability. Accordingly, it is reasonably possible that the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
JUNE 30, 2010 AND 2009**

**Note 2—Summary of significant accounting policies-continued**

**Operating revenues and expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the MEC LFP Program. Operating revenues are composed of member contributions charged for insurance coverage premiums, claims reimbursement revenue for deductible and stop loss payments, and insurance loss recovered which relates to revenue recognized based on the calculation of the stop loss reserve. Operating expenses are necessary costs incurred to provide the goods and service that is the primary activity of the MEC LFP Program. All revenues and expenditures not meeting this definition are reported as non-operating.

**Note 3—Deposits**

The Program has designated Fifth Third Bank for the deposit of funds. The MEC LFP Program's cash and cash equivalents are primarily subject to custodial credit risk, as further explained below.

*Custodial credit risk* is the risk that in the event of bank failure, MEC LFP Program's deposits may not be returned to it. Protection of MEC LFP Program's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of MEC LFP funds shall be required to pledge as security for repayment of all public moneys.

**Note 4—Investments**

At June 30, 2010 and 2009 the program has two certificates of deposit with The Huntington National Bank, the carrying value and balance with the bank was \$207,746 and \$201,889 at June 30, 2010 and 2009, respectively. The full amount of the certificates of deposits was covered by the Federal Depository Insurance Corporation (FDIC) limit of \$250,000.



**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
JUNE 30, 2010 AND 2009**

**Note 5—Loss reserves**

The net balance of unpaid losses and loss adjustment expense reserves at June 30, 2010 and 2009 represent the MEC LFP Program's estimate of the ultimate cost of loss and loss adjustment expenses that have been reported but not settled and that have been incurred but not reported, net of estimated salvage and subrogation. The activity in the losses and loss adjustment expense reserves is summarized as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims and claim adjustment expense at beginning of year	\$ 94,877	\$ 151,346
Incurred claims and claim adjustment expenses:		
Increase (decrease) in provision for insured events of prior years	<u>17,172</u>	<u>(17,535)</u>
Total incurred claims and claim adjustment expenses	<u>17,172</u>	<u>(17,535)</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(34,271)</u>	<u>(38,934)</u>
Total payments	<u>(34,271)</u>	<u>(38,934)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 77,778</u>	<u>\$ 94,877</u>

The actuarial determination of the unpaid losses and loss adjustment expense reserves was prepared by Mercer Oliver Wyman Actuarial Consulting, Inc. (Mercer).

**Note 6—Excess Insurance**

In June 2007 (the last year of the Program) excess insurance coverages provided by the MEC LFP Program above the \$100,000 retention per loss were \$250,000,000 for any one property loss, \$4,000,000 in the aggregate for flood and earthquake losses and \$5,000,000 for any one occurrence and policy aggregate per member for liability losses. In the event the aggregate of all losses exceeds the Stop Loss calculation for the fiscal year, excess insurance is purchased to cover the first \$100,000 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 MEC LFP Program would be liable for such defaulted amounts. The MEC LFP Program evaluates the financial condition of its excess insurers and monitors the concentrations of credit risk to minimize its exposure to significant losses from insurer insolvencies.

Premiums of \$0 were paid to excess insurers for the years ended June 30, 2010 and 2009.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
JUNE 30, 2010 AND 2009**

**Note 7—Program Curtailment**

The Metropolitan Educational Society Program Committee determined under Section 10.3 of the Agreement for the Metropolitan Educational Council Liability Fleet and Property Program (Agreement) that there was insufficient participation for fiscal year 2008 and accordingly, terminated the Program effective June 30, 2007. The Program will remain in operations until all remaining claims are run out. Per section 10.4 of the Agreement the Program shall not be liable in excess of any Loss Fund reserves. In addition, per section 10.5 of the agreement any funds remaining shall be paid to the Council.

**SUPPLEMENTARY INFORMATION**

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
CLAIMS DEVELOPMENT INFORMATION  
For the Years Ended June 30, 2010, 2009, 2008, 2007, 2006, and 2005**

	Fiscal Year and Policy Years Ended					
	2010	2009	2008	2007	2006	2005
Required contribution and investment revenue:						
Earned	\$ 5,857	\$ 4,071	\$ 12,325	\$ 1,310,145	\$ 1,626,817	\$ 1,641,165
Ceded	<u>0</u>	<u>0</u>	<u>0</u>	<u>779,017</u>	<u>891,694</u>	<u>1,039,843</u>
Net earned	5,857	4,071	12,325	531,128	735,123	601,322
Unallocated expenses	619	1,093	38,460	61,874	176,859	168,988
Estimated claims and expenses, end of policy year:						
Incurred	0	0	0	829,340	428,202	378,928
Ceded	<u>0</u>	<u>0</u>	<u>0</u>	<u>379,937</u>	<u>0</u>	<u>0</u>
Net incurred	0	0	0	449,403	428,202	378,928
Net paid (cumulative) as of:						
End of policy year	0	0	0	332,618	124,489	182,444
One year later	0	0	0	214,088	366,618	298,986
Two years later	0	0	0	217,318	445,117	390,917
Three years later	0	0	0	244,454	449,494	388,595
Four years later	0	0	0	0	390,784	419,298
Five years later	0	0	0	0	0	405,564
Re-estimated ceded claims and expenses	0	0	0	303,995	179,531	46,830
Re-estimated net incurred claims and expenses:						
End of policy year	0	0	0	449,403	428,202	378,928
One year later	0	0	0	324,349	529,545	392,619
Two years later	0	0	0	313,349	472,138	417,039
Three years later	0	0	0	317,700	464,979	402,659
Four years later	0	0	0	0	448,221	402,659
Five years later	0	0	0	0	0	402,659
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	0	0	0	(131,703)	20,019	(23,731)

The accompanying notes are an integral part of these financial statements



GILMORE, JASION & MAHLER, LTD

**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  
Metropolitan Educational Council  
Liability, Fleet and Property Program  
Columbus, Ohio

We have audited the financial statements in liquidation of Metropolitan Educational Council Liability, Fleet and Property Program (the Program) as of and for the year ended June 30, 2010, and have issued our report thereon, dated November 18, 2010. 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 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.

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 might 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2010-1 and 2010-2 that we consider to be significant deficiencies in internal control over financial reporting. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program's financial statements in liquidation 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.

We noted certain matters that we reported to management of the Program in a separate report letter dated November 18, 2010.

The Program's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Program's response and, accordingly, we express no opinion on it.

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

*Gilmore, Jason & Mahler, LTD*

November 18, 2010

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

**Finding 2010-1**

**Condition**

The Program did not have the in-house expertise to ensure that all reinsurance and stop loss transactions have been accurately accounted for and reported to the actuarial services.

**Cause**

During the course of the audit it was noted that the Program did not continue their relationship with their risk management and consulting services. This lack of in-house expertise could have resulted in the inability of the Program to identify material transactions that should have been reported in the Program's financial statements.

**Recommendation**

A thorough working knowledge of the Program plays a key role in proving the accuracy of accounting data and information included in the annual financial statements. Therefore, in order to provide accurate accounting information, we strongly recommend that the Program obtain the resources necessary to adequately record financial information in the financial statements.

**Status**

Management concurs with the finding that Program did not utilize the services of their risk management and consulting services leaving a lack on in-house expertise to accurately account for the reinsurance and stop loss transactions.

**Finding 2010-2**

**Condition**

The Program utilizes a third party administrator that does not have a service auditors' report for controls placed in operation or a service auditors' report on controls placed in operation and their operating effectiveness (SAS 70 Type I or Type II).

**Cause**

During our audit, we noted that the third party administrator does not have a service auditors' report for controls placed in operation or a service auditors' report on controls placed in operation and their operating effectiveness (SAS 70 Type I or Type II). These reports allow the service organization to disclose their internal control activities and processes to their users in a uniform format.

**Recommendation**

We recommend that the Program consider asking the third party administrator to obtain a SAS 70 Type I or Type II report as the value of such additional external evaluation may add to the outside processing function.

**Status**

Management recognizes the fact that the third party administrator does not have a service auditors' report but believes that there are mitigating controls in place regarding the outside processing function.

**METROPOLITAN EDUCATIONAL COUNCIL  
LIABILITY, FLEET AND PROPERTY PROGRAM  
SCHEDULE OF PRIOR YEAR (2009) FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

**Finding 2009-1**

**Condition**

The Program did not have the in-house expertise to ensure that all reinsurance and stop loss transactions have been accurately accounted for and reported to the actuarial services.

**Cause**

During the course of the audit it was noted that the Program did not continue their relationship with their risk management and consulting services. This lack of in-house expertise could have resulted in the inability of the Program to identify material transactions that should have been reported in the Program's financial statements.

**Recommendation**

A thorough working knowledge of the Program plays a key role in proving the accuracy of accounting data and information included in the annual financial statements. Therefore, in order to provide accurate accounting information, we strongly recommend that the Program obtain the resources necessary to adequately record financial information in the financial statements.

**Status**

Repeated in the current year as finding 2010-1.

**Finding 2009-2**

**Condition**

The Program utilizes a third party administrator that does not have a service auditors' report for controls placed in operation or a service auditors' report on controls placed in operation and their operating effectiveness (SAS 70 Type I or Type II).

**Cause**

During our audit, we noted that the third party administrator does not have a service auditors' report for controls placed in operation or a service auditors' report on controls placed in operation and their operating effectiveness (SAS 70 Type I or Type II). These reports allow the service organization to disclose their internal control activities and processes to their users in a uniform format.

**Recommendation**

We recommend that the Program consider asking the third party administrator to obtain a SAS 70 Type I or Type II report as the value of such additional external evaluation may add to the outside processing function.

**Status**

Repeated in the current year as finding 2010-2.





**Mary Taylor, CPA**  
Auditor of State

**METROPOLITAN EDUCATIONAL COUNCIL LIABILITY, FLEET AND PROPERTY PROGRAM**

**FRANKLIN 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  
JANUARY 18, 2011**