METROPOLITAN
EDUCATIONAL COUNCIL

LIABILITY, FLEET & PROPERTY PROGRAM

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005

Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditor's Report* of the Metropolitan Educational Council Liability, Fleet & Property Program, Franklin County, prepared by Gilmore, Jasion & Mahler, LTD., for the audit period July 1, 2004 through June 30, 2005. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 11, 2006

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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 accompanying financial statements of the Metropolitan Educational Council Liability, Fleet and Property Program (the Program) of the Metropolitan Educational Council as of and for the year ended June 30, 2005 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 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, 2005, and the changes in its financial position and its cash flows, where applicable, 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 fairly present, in all material respects, the respective financial position of the business-type activities of the Metropolitan Educational Council Liability, Fleet and Property Program as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Generally accepted accounting principles also requires the Program to include Management's Discussion and Analysis for the year ended June 30, 2005. The Program has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 16, 2005, 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 for the year ended June 30, 2005. 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 audit.

Gilmore, Jasion & Mahler, LTD

November 16, 2005

METROPOLITAN EDUCATIONAL COUNCIL
LIABILITY, FLEET AND PROPERTY PROGRAM
BALANCE SHEET
June 30, 2005

ASSETS

Cash and cash equivalents	$ 309,085
Deposit in escrow account	9,715
Total assets	$ 318,800

LIABILITIES AND NET ASSETS

Liabilities	
Loss reserves (Note 4)	$ 253,585
Due to Metropolitan Educational Council	23,786
Accrued professional fees	10,500
Total liabilities	287,871
Net assets	30,929
Total liabilities and net assets	$ 318,800

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

METROPOLITAN EDUCATIONAL COUNCIL
LIABILITY, FLEET AND PROPERTY PROGRAM
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

Operating revenues	
Member contributions	$ 1,636,897
Operating expenses	
Excess insurance premiums	1,039,843
Loss and loss adjustment expense	401,405
Program administrator fees	99,703
Claim processing fees and expenses	25,500
Professional fees	34,286
Management fees to Metropolitan Educational Council	9,043
Bank charges	456
Total operating expenses	1,610,236
Operating income	26,661
Non-operating revenue	
Interest income	4,268
Change in net assets	30,929
Net assets	
Beginning of year	0
End of year	$ 30,929

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

METROPOLITAN EDUCATIONAL COUNCIL
LIABILITY, FLEET AND PROPERTY PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Cash flows from operating activities		
Cash received from members	$	1,636,897
Cash paid to vendors and others		1,332,080
Net cash provided by operating activities		304,817
Cash flows from investing activities		
Interest received on cash and cash equivalents		4,268
Net cash provided by investing activities		4,268
Net increase in cash and cash equivalents		309,085
Cash and cash equivalents, beginning of year		0
Cash and cash equivalents, end of year	$	309,085
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$	26,661
Changes in operating assets and liabilities:		
Deposit in escrow account		(9,715)
Loss reserves		253,585
Due to Metropolitan Educational Council		23,786
Accrued professional fees		10,500
Net cash provided by operating activities	$	304,817

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

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-six 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 3 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, 2005 was for claims in excess of $403,381. Coverage for boiler & machinery and school leaders' errors & omissions are purchased outside of the MEC LFP Program's retention program.

Note 1–Description of the organization-continued

The MEC LFP Program has an agreement with Marsh USA to provide marketing, excess insurance placement, and support services for the group. Cambridge Integrated Services Group, Inc. provides claims adjusting and administrative services to the MEC LFP Program. See Note 2 for further discussion.

The MEC LFP Program served the insurance purchasing needs of 24 public school districts during the year ended June 30, 2005.

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 3 for further discussion.

Note 2–Summary of significant accounting policies

Basis of accounting

The financial statements are prepared on the accrual basis of accounting whereby revenues are accounted for as earned and expenses as incurred. 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 FASB Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements.

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.

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 period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents represent a bank account balance of $309,085 as of June 30, 2005. The bank account balance is Category I to the extent it is insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC). The remainder of the bank account balance is Category 3.

Note 2–Summary of significant accounting policies-continued

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 3. 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 3 and 4 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, 2005 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.

Note 3–Excess Insurance

Excess insurance coverages provided by the MEC LFP Program above the $100,000 retention per loss are $251,000,000 for any one property loss, $5,000,000 in the aggregate for flood and earthquake losses and $6,000,000 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 $1,039,843 were paid to excess insurers for the year ended June 30, 2005.

Note 4–Loss reserves

The net balance of unpaid losses and loss adjustment expense reserves at June 30, 2005 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:

Balance at July 1, 2004	$	0
Incurred related to:		
Current year		654,990
Paid related to:		
Current year		(401,405)
Balance at June 30, 2005	$	253,585

The actuarial determination of the unpaid losses and loss adjustment expense reserves was prepared by Mercer Oliver Wyman Actuarial Consulting, Inc. (Mercer). Mercer is owned by the same holding company that owns Marsh USA, the administrator. See Note 1 for further discussion.

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 of Metropolitan Educational Council Liability, Fleet and Property Program (the Program) as of and for the year ended June 30, 2005, and have issued our report thereon, dated November 16, 2005, wherein we noted that the Program has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 that are required to be reported under *Government Auditing Standards*.

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We noted certain matters that we have reported to the management of the Program in a separate letter dated November 16, 2005.

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, Jasion & Mahler, LTD

November 16, 2005

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MEC 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
FEBRUARY 9, 2006