

**SOUTHWESTERN OHIO EDUCATIONAL  
PURCHASING COUNCIL**

**Financial Statements – Cash Basis**

**June 30, 2006 and 2005**

**with**

**Independent Auditors' Report**





# Mary Taylor, CPA

Auditor of State

Southwestern Ohio Educational Purchasing Council  
303 Corporate Center Drive  
Suite 208  
Vandalia, Ohio 45377

We have reviewed the *Independent Auditors' Report* of the Southwestern Ohio Educational Purchasing Council, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2006. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State's Office (AOS). Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the AOS permits.

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 is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 14, 2007

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**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

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**Clark, Schaefer, Hackett & Co.**  
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Independent Auditors' Report

Southwestern Ohio Educational Purchasing Council  
Montgomery County  
330 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Southwestern Ohio Educational Purchasing Council (the Council) as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Council'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 reasonably assure 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 described more fully in Note 1, the Council has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

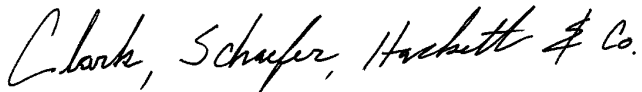
Revisions to GAAP would require the Council to reformat its financial statement presentation and make other changes effective for the year ended June 30, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Council does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to reformat its statements. Since this Council does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2006 and 2005, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash fund cash balances of the Council as of June 30, 2006 and 2005, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Council to include Management's Discussion and Analysis for the years ended June 30, 2006 and 2005. The Council 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 no required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in dark ink and is positioned above the typed name and date.

Springfield, Ohio  
April 24, 2007



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General</b>
<b>Cash Receipts:</b>	
Charges for Services	\$ 376,873
Interest Earnings	45,727
Miscellaneous Receipts	2,333
Total Cash Receipts	424,933
<b>Cash Disbursements:</b>	
Current:	
General Government	367,299
Capital Outlay	8,041
Total Cash Disbursements	375,340
Net Receipts over Disbursements	49,593
Fund Cash Balances, July 1	247,160
<b>Fund Cash Balances, June 30</b>	<b>\$ 296,753</b>
Reserve for Encumbrances, June 30	\$ 99

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES - PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Enterprise</b>	<b>Internal Service</b>	<b>Totals (Memorandum Only)</b>
<b>Operating Cash Receipts:</b>			
Premiums	\$ 2,552,788	\$ -	\$ 2,552,788
Charges for Services	-	16,465,289	16,465,289
Reimbursement of Claims	38,172	-	38,172
Miscellaneous	-	682	682
Total Operating Cash Receipts	<u>2,590,960</u>	<u>16,465,971</u>	<u>19,056,931</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	-	159,460	159,460
Fringe Benefits	-	61,408	61,408
Reinsurance premiums	1,519,260	-	1,519,260
Claims	326,830	-	326,830
Contractual Services	88,778	16,637,047	16,725,825
Miscellaneous	547	235	782
Total Operating Cash Disbursements	<u>1,935,415</u>	<u>16,858,150</u>	<u>18,793,565</u>
Operating Receipts over/(under)			
Operating Disbursements	655,545	(392,179)	263,366
<b>Non-Operating Cash Receipts:</b>			
Interest	58,786	-	58,786
Receipts over/(under) Disbursements	714,331	(392,179)	322,152
Fund Cash Balances, July 1	<u>1,097,749</u>	<u>746,258</u>	<u>1,844,007</u>
<b>Fund Cash Balances, June 30</b>	<b><u>\$ 1,812,080</u></b>	<b><u>\$ 354,079</u></b>	<b><u>\$ 2,166,159</u></b>
Reserve for Encumbrances, June 30	<u>\$ -</u>	<u>\$ 6,448</u>	<u>\$ 6,448</u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>General</b>
<b>Cash Receipts:</b>	
Charges for Services	\$ 386,032
Interest Earnings	29,259
Total Cash Receipts	415,291
<b>Cash Disbursements:</b>	
Current:	
General Government	352,834
Capital Outlay	14,568
Total Cash Disbursements	367,402
Net Receipts over Disbursements	47,889
Fund Cash Balances, July 1	199,271
<b>Fund Cash Balances, June 30</b>	<b>\$ 247,160</b>
Reserve for Encumbrances, June 30	\$ 419

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES - PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Enterprise</b>	<b>Internal Service</b>	<b>Totals (Memorandum Only)</b>
<b>Operating Cash Receipts:</b>			
Premiums	\$ 2,294,962	\$ -	\$ 2,294,962
Charges for Services	<u>-</u>	<u>12,925,150</u>	<u>12,925,150</u>
Total Operating Cash Receipts	<u>2,294,962</u>	<u>12,925,150</u>	<u>15,220,112</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	-	152,414	152,414
Fringe Benefits	-	64,683	64,683
Reinsurance premiums	1,636,621	-	1,636,621
Claims	401,138	-	401,138
Contractual Services	65,300	13,970,423	14,035,723
Miscellaneous	<u>540</u>	<u>210</u>	<u>750</u>
Total Operating Cash Disbursements	<u>2,103,599</u>	<u>14,187,730</u>	<u>16,291,329</u>
Operating Receipts over/(under)			
Operating Disbursements	191,363	(1,262,580)	(1,071,217)
<b>Non-Operating Cash Receipts:</b>			
Interest	<u>15,323</u>	<u>-</u>	<u>15,323</u>
Receipts over/(under) Disbursements	206,686	(1,262,580)	(1,055,894)
Fund Cash Balances, July 1 - restated (Note 2)	<u>891,063</u>	<u>2,008,838</u>	<u>2,899,901</u>
<b>Fund Cash Balances, June 30</b>	<b><u>\$ 1,097,749</u></b>	<b><u>\$ 746,258</u></b>	<b><u>\$ 1,844,007</u></b>
Reserve for Encumbrances, June 30	<u>\$ 17,215</u>	<u>\$ 547,848</u>	<u>\$ 565,063</u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

A. Description of the Entity

The Southwestern Ohio Educational Purchasing Council, Montgomery County (the Council), is a not-for-profit regional council of governments established under Chapter 167 of the Ohio Revised Code. The Council is directed by a member-elected eleven member Executive Board. The Council provides joint purchasing and other educational services for over 110 school districts in southwest Ohio by the cooperative action of the membership.

Component units are legally separate organizations for which the Council is financially accountable. The Council is financially accountable for an organization if the Council appoints a voting majority of the organization's governing board and (1) the Council is able to significantly influence the programs or services performed or provided by the organization; or (2) the Council is legally entitled to or can otherwise access the organization's resources; the Council is legally obligated or has assumed responsibility to finance the deficits of, or provide financial support to, the organization; or the Council is obligated for the debt of the organization. Component units may also include organizations for which the Council approves the budget, the levying of taxes or the issuance of debt.

The Council does not have any component units.

The Council is associated with the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust. This organization is presented in Note 8 to the financial statements.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Council's accounting basis includes investments as assets which are reported on the accompanying statements as a component of cash balance of the respective funds. This basis does not report disbursements for investment purchases or receipts for investment sales. The Council reports gains or losses at the time of sale as receipts or disbursements, respectively.

During fiscal years 2006 and 2005, the Council's investments were limited to securities issued by the Federal Home loan Mortgage Corporation, the Federal National Mortgage Association and the Federal Home Loan Bank. All securities are valued at cost.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2006 and 2005

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D. Fund Accounting

The Council uses fund accounting to segregate cash and investments that are restricted as to use. The Council classifies its funds into the following types:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Enterprise Fund – This fund accounts for monies related to the Liability, Fleet, and Property insurance pool (risk pool) offered by the Council. Premium rates are set by the Council and remitted on an annual basis by participating districts. The Council has contracted with Marsh USA to provide marketing, excess insurance placement, and support services for the Plan. See Note 6 for additional information on the Liability, Fleet, and Property insurance pool.

Internal Service Funds – These funds account for the financing of goods and services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost reimbursement basis. The Council had the following internal service funds:

*Self Help Gas Fund* – This fund receives monies for utility services to the participating districts. Collections are then remitted to Energy USA on a monthly basis.

*Training Fund* – This fund receives monies for asbestos training services to member entities. Training includes two-hour asbestos awareness, fourteen-hour asbestos training, fourteen-hour refresher, and three day asbestos training seminars. Disbursements are made to the individual(s) conducting the seminars.

*Workers' Compensation Group Rating Fund* – This fund receives monies from participating districts for workers' compensation services provided by an outside consulting organization. Fees collected are remitted on a quarterly basis to consulting firm. The program has a shared savings component in which districts with penalty experience pay into a pool and those funds are redistributed to districts that have good experience.

*Drug & Alcohol Testing Program Fund* – This fund receives monies for drug and alcohol testing services provided by local medical facilities. Collections are then remitted to the medical facilities on a monthly basis.

*Insurance Fund* – This fund receives monies from the Southwestern Ohio Educational Purchasing Council Benefit Plan Trust (the Benefit Plan) for payroll and expenses incurred by Council staff members working in the Benefits division.

E. Budgetary Process

Section 3 of the Council's Constitution and By-Laws require that the Council's Executive Board approve annual appropriations.

Appropriations – The Executive Committee annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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Estimated Resources – Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1 of each year.

Encumbrances – The Council’s Constitution and By-Laws require the Council to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

The budgetary activity for fiscal years 2006 and 2005 is summarized in Note 4.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to receive cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**NOTE 2 – PRIOR PERIOD ADJUSTMENT:**

In fiscal year 2004, the Council reported the activity of the Liability, Fleet, and Property risk pool as an internal service fund. Based on Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the activities of a public entity risk pool should be accounted for in an enterprise fund. This reclassification of the Liability, Fleet, and Property fund had the following effect on the Fund Cash Balances reported for the Proprietary Fund Types at June 30, 2004:

	Enterprise Fund Type	Internal Service Fund Type
Fund Cash Balances as reported on June 30, 2004	\$ -	\$ 2,899,901
Reclassification of Liability, Fleet, & Property Risk Pool activity to enterprise fund	891,063	(891,063)
Fund Cash Balances as restated for June 30, 2004	\$ 891,063	\$ 2,008,838

**NOTE 3 – POOLED CASH AND INVESTMENTS:**

The Council maintains a cash and investments pool used by all funds. The Constitution and By-Laws prescribe allowable deposits and investments. The carrying amount of cash and investments at June 30, 2006 and 2005 was as follows:

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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	June 30, 2006	June 30, 2005
<u>Deposits:</u>		
Demand Accounts	\$ 1,167,760	\$ 1,506,143
<u>Investments:</u>		
Federal Home Loan Mortgage Corp.	791,852	387,835
Federal Home Loan	503,300	-
Federal National Mortgage Association	-	197,189
Total Investments	1,295,152	585,024
Total Deposits and Investments	\$ 2,462,912	\$ 2,091,167

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Council's deposits may not be returned to it. Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institution.

The amount of the Council's bank deposit at June 30, 2006 and 2005 which was subject to custodial credit risk as it was uninsured and uncollateralized was \$1,108,938 and \$1,652,595 respectively. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Medical Trust to a successful claim by the Federal Deposit Insurance Corporation.

Investments

As noted previously, investments are carried at cost by the Council. At June 30, 2006 and 2005 the fair market values for the investments were not significantly different from the carrying amount.

*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. All investments held by the Council at June 30, 2006 and 2005 had maturity dates of less than one year from the date of purchase with the exception of the Federal Home Loan Bank which a maturity of 1.25 years from the date of purchase.

*Credit Risk:* The Council's investment policy permits investment in all vehicles permitted by State Law. At the end of fiscal years 2006 and 2005 all the Council's investments were rated AAA by Standard & Poor's.



**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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*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.

**NOTE 4 – BUDGETARY ACTIVITY:**

Budgetary activity for the years ending June 30, 2006 and 2005 is as follows:

*2006 Budgeted vs. Actual Receipts*

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 424,933	\$ 424,933
Enterprise	-	2,649,746	2,649,746
Internal Service	-	16,465,971	16,465,971
<b>Total</b>	<b>\$ -</b>	<b>\$ 19,540,650</b>	<b>\$ 19,540,650</b>

*2006 Budgeted vs. Actual Budgetary Basis Expenditures*

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 424,719	\$ 375,439	\$ 49,280
Enterprise	3,517,215	1,935,415	1,581,800
Internal Service	17,824,848	16,864,598	960,250
<b>Total</b>	<b>\$ 21,766,782</b>	<b>\$ 19,175,452</b>	<b>\$ 2,591,330</b>

*2005 Budgeted vs. Actual Receipts*

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 415,291	\$ 415,291
Enterprise	-	2,310,285	2,310,285
Internal Service	-	12,925,150	12,925,150
<b>Total</b>	<b>\$ -</b>	<b>\$ 15,650,726</b>	<b>\$ 15,650,726</b>

*2005 Budgeted vs. Actual Budgetary Basis Expenditures*

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 426,334	\$ 367,821	\$ 58,513
Enterprise	3,559,324	2,120,814	1,438,510
Internal Service	17,206,570	14,735,578	2,470,992
<b>Total</b>	<b>\$ 21,192,228</b>	<b>\$ 17,224,213</b>	<b>\$ 3,968,015</b>

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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**NOTE 5 – RETIRMENT SYSTEMS:**

The Council's full-time employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal years 2006 and 2005, members of SERS contributed 9 percent of their gross salaries. The Council provided an amount equal to 14 percent of participants' gross salaries. However, as an employee benefit, the Council contributed the employees' required contribution of 10 percent in both fiscal years on a "pick-up on pick-up basis". This additional benefit resulted in the payment of 11 percent for employee share and 15.26 percent for the employer share for each year. The Council has paid all contributions required through June 30, 2006.

**NOTE 6 – LIABILITY, PROPERTY, AND FLEET INSURANCE POOL:**

In July 2003, the Council established the Liability, Fleet, and Property Insurance Program (the LFP Program) as authorized by Section 2744.081 of the Ohio Revised Code to provide property, general liability, school leader's errors and omissions, automobile, excess liability, crime, surety and bond, inland marine and other coverage to participating members. The 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. There were 33 districts participating in the LFP Program in fiscal year 2006 and 32 in fiscal year 2005.

The 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.

The LFP Program retains the first \$100,000 of each loss for general liability, automobile, crime and surety and property claims. Each participating district has a maintenance deductible of \$1,000 for property, automobile physical damage and crime claims. Stop loss insurance is purchased for the LFP Program and is fully funded by member contributions. The stop loss coverage for the years ended June 30, 2006 and 2005 was set at \$790,000 and \$710,317, respectively. Coverage for boiler and machinery, as well as school leaders errors and omissions, are purchased outside of the LFP Program retention program.

Excess insurance coverage provided by the LFP Program above the \$100,000 retention per loss are \$301 million for any one property loss, \$5 million in the aggregate for flood and earthquake losses, and \$6 million for any one occurrence and policy aggregate per member for liability losses. In the event the aggregate of all losses exceeds the stop loss calculation for the fiscal year, excess insurance is purchased to cover the first \$100,000 of any additional covered loss. Premiums of \$1,519,260 and \$1,636,621 were paid to excess insurers for the years ended June 30, 2006 and 2005, respectively.

The LFP Program annually establishes a liability for claims that are based on estimates of the ultimate cost of claims 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. The liabilities established for future claim payments were \$979,409 and \$530,551 at June 30, 2006 and 2005, respectively.

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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The LFP Program issues a separate stand-alone financial report annually which provides additional information on the Program. To obtain a copy of the report, write to Ken Swink, Director, at 303 Corporate Center Drive, Suite 208Vandalia, Ohio 45377.

**NOTE 7 – RISK MANAGEMENT:**

The Council has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Errors and omissions

Coverage amounts have not decreased nor have claims exceeded coverage limits in any of the past three fiscal years.

**NOTE 8 – RELATED ORGANIZATION:**

The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (the Benefit Plan) is an insurance cooperative of member school districts covering a 12 county area. The purpose of the cooperative is to provide health care, dental, and vision coverage benefits to eligible employees, dependents and beneficiaries of the Benefit Plan and those Boards of Education who elect to participate in the Benefit Plan. The Benefit Plan is qualified pursuant to Section 501(c)(9) of the Internal Revenue Code and its tax status is governmental.

The Benefit Plan is governed by an eleven member Board of Trustees which is elected by the member districts of the Benefit Plan. To obtain financial information, write to Barbara Coriell, who serves as the Benefit Plan Administrator, at 303 Corporate Center Drive, Suite 208Vandalia, Ohio 45377.



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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*

Southwestern Ohio Educational Purchasing Council  
Montgomery County  
330 Corporate Center Drive, Suite 208  
Vandalia, Ohio 45377

We have audited the financial statements of the Southwestern Ohio Educational Purchasing Council (the Council), as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated April 24, 2007, wherein it was noted the Council prepared its financial statements on a cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America. 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 Council'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 Council'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*.

This report is intended solely for the information and use of the Executive Board, the management of the Council 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  
April 24, 2007



**Mary Taylor, CPA**  
Auditor of State

**SOUTHWESTERN OHIO EDUCATIONAL PURCHASING COUNCIL**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 26, 2007**