

**SAN-OTT INSURANCE CONSORTIUM  
OTTAWA COUNTY, OHIO**

***FINANCIAL STATEMENT  
(AUDITED)***

**FOR THE FISCAL YEAR ENDED  
JULY 31, 2014**

**WILLIAM NYE, CHAIRPERSON**





# Dave Yost • Auditor of State

Board of Directors  
San-Ott Insurance Consortium  
2810 N. Genoa-Clay Center Road  
Genoa, Ohio 43430

We have reviewed the *Independent Auditor's Report* of the San-Ott Insurance Consortium, Ottawa County, prepared by Julian & Grube, Inc., for the audit period August 1, 2013 through July 31, 2014. 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 San-Ott Insurance Consortium is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

December 18, 2014

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**SAN-OTT INSURANCE CONSORTIUM  
OTTAWA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JULY 31, 2014**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report**

San-Ott Insurance Consortium  
Ottawa County  
2810 N. Genoa-Clay Center Road  
Genoa, Ohio 43430

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statement and related notes of the San-Ott Insurance Consortium, Ottawa County, as of and for the fiscal year ended July 31, 2014.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting this financial statement in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on this financial statement based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the San-Ott Insurance Consortium's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the San-Ott Insurance Consortium's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the San-Ott Insurance Consortium prepared this financial statement using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the San-Ott Insurance Consortium as of July 31, 2014, or changes in financial position or cash flows thereof for the fiscal year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above present fairly, in all material respects, the combined cash balances of the San-Ott Insurance Consortium, Ottawa County, as of July 31, 2014, and its combined cash receipts and disbursements for the fiscal year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the San-Ott Insurance Consortium'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the San-Ott Insurance Consortium's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
November 25, 2014

SAN-OTT INSURANCE CONSORTIUM  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCE  
FOR THE FISCAL YEAR ENDED JULY 31, 2014

<b>OPERATING CASH RECEIPTS</b>	
Member Contributions	\$ 10,117,074
Administrative Fees Refund	41,415
Stop Loss Refund	869,375
Prescription Drug Rebates	<u>175,164</u>
<b>Total Operating Cash Receipts</b>	<u>11,203,028</u>
<b>OPERATING CASH DISBURSEMENTS</b>	
Claims Paid	8,542,455
Administrative Fees	1,380,665
Insurance Premiums	81,842
Professional Fees	170,932
Miscellaneous Fees	<u>4,406</u>
<b>Total Operating Cash Disbursements</b>	<u>10,180,300</u>
<b>Excess of operating cash receipts over/(under) operating disbursements</b>	<u>1,022,728</u>
<b>NON-OPERATING CASH RECEIPTS</b>	
Investment Receipts	<u>19,662</u>
<b>Total Non-Operating Receipts</b>	<u>19,662</u>
<b>Change in Cash Fund Balance</b>	1,042,390
<b>CASH FUND BALANCE AT BEGINNING OF YEAR</b>	<u>3,307,015</u>
<b>CASH FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 4,349,405</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

**SAN-OTT INSURANCE CONSORTIUM  
OTTAWA COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2014

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

**Description of the Entity**

San-Ott Insurance Consortium (the "Consortium") is an Ohio not-for-profit corporation organized under Section 501(c)(9) of the Internal Revenue Code for the public purpose of enabling its members to obtain insurance coverage, provide methods for paying claims and provide a formalized jointly administered self-insurance pool. Specifically, the Consortium provides coverage for medical, dental and prescription drug benefits. Members of the Consortium include the following eight entities: Benton-Carroll-Salem Schools, Clyde-Green Springs Schools, Danbury Local Schools, Genoa Area Local Schools, Gibsonburg Exempted Village Schools, Put-in-Bay Schools, Vanguard-Sentinel Career Technology Centers and Woodmore Local Schools.

**Basis of Accounting**

This financial statement follows the cash basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. All transactions are accounted for in a single enterprise fund.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**Cash and Investments**

Investments are included in cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as investment receipts. The Consortium did not have any investments as of July 31, 2014.

**Member and Supplemental Contributions**

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative disbursements of the Consortium and to create reserves for claims and unallocated loss adjustment expenses. Under the terms of membership, should annual member contributions not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative disbursements, the Board of Directors can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Consortium and any later period when claims or disbursements need to be paid which are attributable to any membership year during which the event or claim occurred.

**NOTE 2 - EQUITY IN CASH AND CASH EQUIVALENTS**

The carrying amount of cash and cash equivalents at July 31, 2014 was as follows:

Demand Deposits	<u>\$ 4,349,405</u>
Total Cash and Cash Equivalents	<u>\$ 4,349,405</u>

**SAN-OTT INSURANCE CONSORTIUM  
OTTAWA COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2014

**NOTE 2 - EQUITY IN CASH AND CASH EQUIVALENTS - (Continued)**

**Deposits**

At July 31, 2014, the carrying amount and bank balance of the Consortium's deposits was \$4,349,405. Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Consortium, or (3) collateralized by the financial institution's public entity deposit pool.

**Investments**

Investments in mutual funds (such as STAR Ohio) are not evidenced by securities that exist in physical or book entry form. The Consortium did not have any investments as of July 31, 2014.

There are no statutory requirements governing the investment of Consortium funds.

**NOTE 3 - CONTRACTED SERVICES**

Effective August 1, 2013, the Consortium participates in the Jefferson Health Plan (the "Health Plan"), a claims servicing pool organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative program to administer insurance benefits for employees of the participating entities and their eligible dependents. The Health Plan contracts with third-party administrators to process and pay claims incurred by its members.

The Health Plan also purchases stop-loss coverage for claims in excess of a set amount for individual claims and in the pool's aggregate.

Each member of the Health Plan is obligated to pay a fee based on an estimate of the member's share of the Health Plan costs for the fiscal year. Included in this estimate are claims by eligible employees, which are payable by each member, the member's share of the various insurance premiums, and their proportionate share of the administrative costs of the Health Plan. The actual balance of each member's account is determined on a monthly basis. Each member is required to meet or exceed the claims that have been incurred but not reported and to maintain adequate reserves or current funding to meet or exceed their claims fluctuation reserve requirements. If a member is in a deficit position, the participating member has two fiscal years to make up a negative reserve amount or an insufficient incurred but not reported and three fiscal years to make up insufficient claims fluctuation reserves.

Members may withdraw from the Health Plan with as much notice as is possible for the termination, allowing the Health Plan time to determine any withdrawal balance owed to or by the departing employer. Any outstanding reserve balances are held by the Health Plan for a maximum period of six months to satisfy the payment of claims incurred before termination. The terminating member has the option to pay all of the claims incurred prior to the termination for membership, so that any reserves could be released sooner. Employers found to be in a deficit position wishing to leave the Health Plan will be required to repay the deficit in full within ninety days of the effective withdrawal date. Additionally, such terminating member will be required to pay any claims incurred prior to termination notification.

Through the Health Plan, the Consortium has also contracted with Medical Mutual of Ohio to provide claims processing and other various administrative services related to processing medical and dental claims. Similarly, the Consortium has contracted with Express Scripts for processing claims for prescription drug benefits from the period of August 1, 2013 - December 31, 2013 and contracted with Caremark Pharmaceutical Services Group from the period of January 1, 2014 - July 31, 2014.

**SAN-OTT INSURANCE CONSORTIUM  
OTTAWA COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2014

**NOTE 4 - RISK MANAGEMENT**

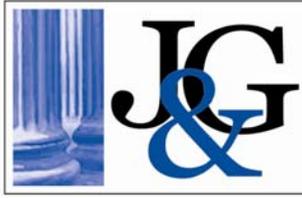
The Consortium contracts with third party administrators to process and pay medical, dental, and prescription drug claims incurred by its members. Members pay monthly premiums to the Consortium through the Health Plan based upon an annual estimate determined by the Actuary. Each member district issues payments to the Health Plan for actual insurance claims processed, stop-loss premiums, and administrative charges.

The Consortium employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Consortium to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in Actuarial Standard of Practice No. 5 Incurred Health Claims Liabilities (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

A comparison of the Consortium's cash and investments to the actuarially-measured liability follows:

	<u>2014</u>	<u>2013</u>
Cash and Investments	\$4,349,405	\$3,307,015
Actuarial Liabilities	\$1,853,000	\$1,410,800



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by *Government Auditing Standards***

San-Ott Insurance Consortium  
Ottawa County  
2810 N. Genoa-Clay Center Road  
Genoa, Ohio 43430

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the San-Ott Insurance Consortium, Ottawa County, as of and for the fiscal year ended July 31, 2014, and the related notes to the financial statement and have issued our report thereon dated November 25, 2014 wherein we noted the San-Ott Insurance Consortium followed financial reporting provisions Ohio Revised Code 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the San-Ott Insurance Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the San-Ott Insurance Consortium's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the San-Ott Insurance Consortium's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors  
San-Ott Insurance Consortium

***Compliance and Other Matters***

As part of reasonably assuring whether the San-Ott Insurance Consortium's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the San-Ott Insurance Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the San-Ott Insurance Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.  
November 25, 2014



# Dave Yost • Auditor of State

**SAN-OTT INSURANCE CONSORTIUM**

**OTTAWA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 30, 2014**