

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2014*

DAVE BUTLER, TREASURER



Dave Yost • Auditor of State

Board of Directors
South Central Ohio Insurance Consortium
1108 South Main Street
Baltimore, Ohio 43015

We have reviewed the *Independent Auditor's Report* of the South Central Ohio Insurance Consortium, Fairfield County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 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 South Central Ohio 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

May 4, 2015

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**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

South Central Ohio Insurance Consortium
Fairfield County
1108 S. Main Street
Baltimore, Ohio 43105

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the South Central Ohio Insurance Consortium, Fairfield County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the South Central Ohio Insurance Consortium's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements 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 South Central Ohio 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 South Central Ohio 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Central Ohio Insurance Consortium, Fairfield County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the South Central Ohio Insurance Consortium had a prior period adjustment to correct cash and net position as of June 30, 2013. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014, on our consideration of the South Central Ohio 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 South Central Ohio Insurance Consortium's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 5, 2014

SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

The discussion and analysis of the South Central Ohio Insurance Consortium's financial performance provides an overview and analysis of the Insurance Consortium's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Consortium's financial performance.

Financial Highlights

- < The assets of South Central Ohio Insurance Consortium exceeded its liabilities at June 30, 2014 by \$18,755,087. This balance was comprised of unrestricted net position.

- < In total, net position decreased by \$709,278 which represents a 3.64 percent decrease from 2013.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Central Ohio Insurance Consortium as a financial whole, an entire operating entity.

This discussion and analysis is intended to serve as an introduction to the Consortium's basic financial statements. The Consortium's basic financial statements are comprised of two components: the financial statements and notes to those financial statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the Consortium did financially during the fiscal year ended June 30, 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report the Consortium's net position and changes in that position. This change in net position is important because it tells the reader whether the financial position of the Insurance Consortium has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The Consortium uses enterprise presentation for all of its activities.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Certain amounts have been updated to conform to current year presentation.

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)*

Financial Analysis

Table 1 provides a summary of the Consortium's net position for 2014 compared to fiscal year 2013:

Table 1
Net Position at Year End

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash and Cash Equivalents	\$1,476,749	\$23,027,365
Investments	21,470,538	-
<i>Total Assets</i>	<u>22,947,287</u>	<u>23,027,365</u>
 <u>Liabilities:</u>		
Current Liabilities	4,192,200	3,563,000
<i>Total Liabilities</i>	<u>4,192,200</u>	<u>3,563,000</u>
 <u>Net Position:</u>		
Unrestricted	18,755,087	19,464,365
<i>Total Net Position</i>	<u><u>\$18,755,087</u></u>	<u><u>\$19,464,365</u></u>

Assets decreased \$80,078 from fiscal year 2013 due to a decrease in cash and cash equivalents and investments held by the Consortium, which is the result of an increase in claims paid for member districts.

Current liabilities increased \$629,200 due to an increase in claims payable.

The Consortium's net position is unrestricted net position. This net position represents resources that may be used to meet the Consortium's ongoing obligations to pay medical, dental and prescription claims.

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)*

Table 2 shows the changes in net position for fiscal year 2014 compared to changes for fiscal year 2013.

Table 2
Changes in Net Position

	2014	2013
<u>Revenues:</u>		
<i>Operating Revenue:</i>		
Receipt for Member Districts	\$45,624,080	\$41,148,995
Rebates	274,953	-
<i>Nonoperating Revenue:</i>		
Interest Income	110,848	156,038
Refund to Consortium	6,059,362	-
Total Revenues	52,069,243	41,305,033
<u>Expenses:</u>		
Claims Paid	43,842,325	38,056,446
Administrative Fees	2,561,126	202,969
Stop Loss Premiums	6,232,564	5,847,328
Life Insurance Premiums	119,369	104,657
Other Professional Services	23,137	152,897
Total Expenses	52,778,521	44,364,297
<i>Change in Net Position</i>	(709,278)	(3,059,264)
Net Position - Beginning of Year	19,464,365	22,523,629
Net Position - End of Year	\$ 18,755,087	\$ 19,464,365

The primary program expenses for the Consortium are Claims Paid, and stop loss premiums. Claims Paid, which represents 83.07 percent of the total, represents medical, dental and prescriptions claims paid as benefits for employees of the members of the Consortium.

The majority of the funding for the Consortium is premiums received from member districts. Receipts from member districts account for 87.62 percent of total revenues.

Budget Highlights

The South Central Ohio Insurance Consortium is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Consortium had no capital assets.

***SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY***

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)*

Debt Administration

At June 30, 2014, the Consortium had no general obligation debt outstanding.

Current Issues

Management believes that the South Central Ohio Insurance Consortium is financially stable. As indicated in the preceding financial information, the Consortium is dependent on premiums received from member districts. Premium revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program benefit levels will be dependent on increased premiums to meet inflation. Careful financial planning will permit the Consortium to provide quality benefits for the employees of the member districts.

Contacting the Insurance Consortium's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Insurance Consortium's finances and to show the Consortium's accountability for the money it received. If you have any questions about this report or need additional information, contact Dave Butler, Treasurer, South Central Ohio Insurance Consortium, 1108 S Main Street, Baltimore, Ohio 43105.

**BASIC
FINANCIAL STATEMENTS**

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,476,749
Investments	<u>21,470,538</u>
Total Assets	<u>22,947,287</u>
Liabilities:	
Claims Payable	<u>4,192,200</u>
Total Liabilities	<u>4,192,200</u>
Net Position:	
Unrestricted	<u>18,755,087</u>
Total Net Position	<u><u>\$ 18,755,087</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating Revenues:

Receipts from Member Districts	\$ 45,624,080
Rebates	274,953
Total Operating Revenues	<u>45,899,033</u>

Operating Expenses:

Claims Paid	43,842,325
Administrative Fees	2,561,126
Stop Loss Premiums	6,232,564
Life Insurance Premiums	119,369
Other Professional Services	<u>23,137</u>

Total Operating Expenses 52,778,521

Operating Income (Loss) (6,879,488)

Other Nonoperating Revenues:

Interest Income	110,848
Refund to Consortium	<u>6,059,362</u>

Total Other Nonoperating Revenues 6,170,210

Net Change in Net Position (709,278)

Net Position at Beginning of Year - Restated 19,464,365

Net Position at End of Year \$ 18,755,087

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Member Districts	\$ 45,624,080
Cash Received from Rebates	274,953
Cash Payments for Claims	(43,213,125)
Cash Payments for Administrative Expenses	(2,561,126)
Cash Payments for Premiums	(6,351,933)
Cash Payments for Other	(23,137)

Net Cash Used in Operating Activities	<u>(6,250,288)</u>
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Cash Flows from Noncapital Financing Activities

Refund to Consortium	<u>6,059,362</u>
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Net Cash Provided by Noncapital Financing Activities	<u>6,059,362</u>
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Cash Flows from Investing Activities:

Purchase of Investments	(21,470,538)
Interest on Investments	110,848

Net Cash Used in Investing Activities	<u>(21,359,690)</u>
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Net Decrease in Cash and Cash Equivalents	(21,550,616)
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Cash and Cash Equivalents Beginning of Year, restated	<u>23,027,365</u>
Cash and Cash Equivalents End of Year	<u>\$ 1,476,749</u>

**Reconciliation of Operating Loss to Net
Cash Used in Operating Activities:**

Operating Loss	\$ (6,879,488)
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Increase in Liabilities:

Claims Payable	<u>629,200</u>
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Net Cash Used in Operating Activities	<u>\$ (6,250,288)</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 1 - DESCRIPTION OF INSURANCE CONSORTIUM AND REPORTING ENTITY

Description of Insurance Consortium

The South Central Ohio Insurance Consortium (the Consortium), a Regional Council of Governments organized under Ohio Rev. Code Chapter 167, was established for the purpose of establishing and carrying out a cooperative health, dental, life, and prescription program. The Consortium is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws of the Consortium.

Management believes the financial statement included in this report represents all of the financial activity of the Consortium over which the Consortium has the ability to exercise direct operating control.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Consortium consists of all funds, departments, boards, and agencies that are not legally separate from the Consortium. For South Central Ohio Insurance Consortium this is the general operations.

Component units are legally separate organizations for which the Consortium is financially accountable. The Consortium is financially accountable for an organization if the Consortium appoints a voting majority of the organization's governing board and (1) the Consortium is able to significantly influence the programs or services performed or provided by the organization; or (2) the Consortium is legally entitled to or can otherwise access the organization's resources; the Consortium is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Consortium is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Consortium in that the Consortium approves the budget, the issuance of debt, or the levying of taxes. The Consortium has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Consortium have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Consortium's accounting policies are described below.

A. Basis of Presentation

The Consortium's basic financial statement consists of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The Consortium uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

***SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY***

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Statement of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Consortium's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from the nonexchange transactions, in which the Consortium receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Consortium must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Consortium on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Cash and Investments

The Consortium's cash is held and invested by the Fiscal Agent, Liberty Union-Thurston Local School District. The Fiscal Agent acts as the custodian for the Consortium's monies. The Consortium's assets are held in the Fiscal Agent's cash and investment pool, and is valued at the Fiscal Agent's reported carrying amount. Liberty Union-Thurston Local School District receives all payments from member governments and then makes the claim payments as approved by the third-party administrator. Effective June 1, 2013, the Consortium contracted with the Jefferson Health Plan for stop-loss services.

To improve cash management, the cash of the Consortium is pooled and presented as "equity in pooled cash and cash equivalents" and "investments" on the basic financial statements.

During fiscal year 2014, investments were limited to investments in commercial paper, Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), municipal bonds, negotiable certificates of deposit (negotiable CD's), U.S. Treasury Notes, and nonnegotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased for the Consortium are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Consortium's investments at fiscal year end is provided in Note 3.

E. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consist of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Consortium or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Consortium applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

As of June 30, 2014, all of the Consortium's net position is considered unrestricted.

F. Budgetary Process

The member governments of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself does not adopt a budget, but the Consortium's Fiscal Agent adopts a budget and files it with the Fairfield County Auditor.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Consortium. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Consortium. All revenues and expenses not meeting this definition are reported as non-operating.

H. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Consortium into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Consortium Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

***SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY***

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least at 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Consortium's name. During fiscal year 2014, the Consortium complied with the provisions of these statutes.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited.

The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Consortium, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the Consortium's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Insurance Consortium.

At June 30, 2014, the carrying amount of all Consortium deposits was \$1,476,749. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2014, \$623,747 of the Consortium's bank balance of \$1,978,330 was exposed to custodial credit risk as discussed above, while \$1,354,583 was covered by the Federal Deposit Insurance Corporation. The amount exposed to custodial credit risk was collateralized with securities held by the Consortium or its agency in the Consortium's name or pooled securities held by the bank.

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SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Investments: As of June 30, 2014, the Consortium had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater Than 24 Months</u>
Commercial paper	\$ 499,515	\$ 499,515	\$ -	\$ -	\$ -	\$ -
FFCB	1,496,905	-	-	-	1,496,905	-
FHLB	1,497,445	-	-	-	-	1,497,445
FHLMC	1,118,006	-	-	-	-	1,118,006
FNMA	11,085,685	-	-	-	-	11,085,685
Municipal bonds	734,461	-	362,324	-	372,137	-
Negotiable CD's	4,041,331	-	-	250,153	2,122,060	1,669,118
U.S. Treasury Notes	997,190	-	-	-	997,190	-
Total	<u>\$ 21,470,538</u>	<u>\$ 499,515</u>	<u>\$ 362,324</u>	<u>\$ 250,153</u>	<u>\$ 4,988,292</u>	<u>\$ 15,370,254</u>

The weighted average maturity of investments is 2.62 years.

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Consortium's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Consortium's investments in federal agency securities and U.S. Treasury Notes were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Consortium's investments in municipal bonds were rated AA and Aa2 by Standard & Poor's and Moody's Investor Services, respectively. Credit ratings for the Consortium's investments in commercial paper and negotiable certificates of deposit are not readily available. The Consortium's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Consortium will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. Treasury Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Consortium's name. The Consortium has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Consortium places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Consortium at June 30, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Commercial paper	\$ 499,515	2.33
FFCB	1,496,905	6.97
FHLB	1,497,445	6.97
FHLMC	1,118,006	5.21
FNMA	11,085,685	51.64
Municipal bonds	734,461	3.42
Negotiable CD's	4,041,331	18.82
U.S. Treasury Notes	<u>997,190</u>	<u>4.64</u>
 Total	 <u>\$ 21,470,538</u>	 <u>100.00</u>

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,476,749
Investments	<u>21,470,538</u>
 Total	 <u>\$ 22,947,287</u>
 <u>Cash and investments per statement of net position</u>	 <u>\$ 22,947,287</u>

NOTE 4 - RISK MANAGEMENT

The South Central Ohio Insurance Consortium, which is open to any government in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member government under its benefit plan for its employees. The Board of Directors also purchases coverage for claims in excess of a set amount for those members that are self insured. The Board of Directors is composed of one representative from each member government.

Each member of the Consortium is obligated to pay a fee based on an estimate of the member's share of the Consortium costs for the fiscal year. Included in this estimate are the member's share of the health, dental and prescription insurance premiums, and their proportionate share of the administrative cost of the Consortium. Estimated claims as of June 30, 2014 are \$4,192,200. Funds available to pay claims as of that date are \$22,947,287. An excess coverage insurance policy covers individual claims for each participating member of the Consortium in excess of \$400,000 and \$3,000,000 lifetime maximum, per employee Consortium wide. Prepayments of anticipated shortages may be made by member governments.

Member governments may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. The obligation for the payment of any negative balance in a member's account is the responsibility of each individual school upon withdrawal from the Consortium.

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 4 - RISK MANAGEMENT - (Continued)

On May 31, 2013, the Consortium left the Jefferson Health Plan program and no longer used them to make claims payments. Claims are now paid directly by the Consortium upon approval of the claims by the third-party administrator, EBMC. The Consortium does still purchase stop loss coverage from Jefferson Health Plan as a contract service.

The Insurance Consortium assumes a limited risk for the medical, dental and prescription portions of the health insurance program.

NOTE 5 - JOINTLY GOVERNED ORGANIZATIONS

The South Central Ohio Insurance Consortium is a legally separate consortium. The Consortium is a jointly governed organization with member governmental entities. The governing board consists of the superintendent or other designee appointed by each of the members of the Consortium. The Consortium does not have an ongoing financial interest in or ongoing financial responsibility for the member governments other than the claims paid on behalf of the member governments' employees.

The Consortium utilizes the Liberty Union-Thurston Local School District (the Fiscal Agent) as its fiscal agent. The assets and liabilities for the Consortium are reflected in an agency fund on the Fiscal Agent's financial statements.

NOTE 6 - SUBSEQUENT EVENTS

There were no subsequent events noted to be disclosed through the date the financial statements were available to be issued. Any subsequent events after that date have not been considered in this response.

NOTE 7 - PRIOR PERIOD NET POSITION ADJUSTMENT

A prior period adjustment to the financial statements was made to reflect the correct cash and net position as of June 30, 2013. In prior years, amounts paid to the Jefferson Health Plan were included in the Consortium's financial statement balances.

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Net Position at June 30, 2013, as previously reported	\$ 22,575,536
Adjustments:	
Removal of monies paid to the Jefferson Health Plan	<u>(3,111,171)</u>
Net Position at June 30, 2013, restated	<u>\$ 19,464,365</u>



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*

South Central Ohio Insurance Consortium
Fairfield County
1108 S. Main Street
Baltimore, Ohio 43105

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 South Central Ohio Insurance Consortium, Fairfield County, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the South Central Ohio Insurance Consortium's basic financial statements and have issued our report thereon dated December 5, 2014, wherein we noted, as discussed in Note 7 to the financial statements, the South Central Ohio Insurance Consortium had a prior period adjustment to correct cash and net position as of June 30, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the South Central Ohio 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 South Central Ohio 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 South Central Ohio 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a significant deficiency in internal control. We consider finding 2014-001 to be a significant deficiency.

Board of Directors
South Central Ohio Insurance Consortium

Compliance and Other Matters

As part of reasonably assuring whether the South Central Ohio 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*.

South Central Ohio Insurance Consortium's Response to Findings

The South Central Ohio Insurance Consortium's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the South Central Ohio Insurance Consortium's response and, accordingly, we express no opinion on it.

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 South Central Ohio 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 South Central Ohio Insurance Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
December 5, 2014

**SOUTH CENTRAL OHIO INSURANCE CONSORTIUM
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2014-001

Significant Deficiency - Financial Statement Presentation

Management should maintain an accounting system and accounting records sufficient to enable the South Central Ohio Insurance Consortium to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements, and prepare financial statements.

Prior to July 1, 2013, the Consortium was self insured through the Jefferson Health Plan. Effective July 1, 2013, the Consortium only was insured with the Jefferson Health Plan for stop-loss. Due to the change in this, at June 30, 2013, the Consortium previously included amounts paid to the Jefferson Health Plan. The prior period adjustment, which was identified in fiscal year 2014 by the Consortium management, removes these amounts from their financial statement balances.

The audited financial statements and accounting records have been adjusted for the misstatements identified during the audit.

We recommend the South Central Ohio Insurance Consortium consult with their auditors, an accounting/consulting firm, and consider obtaining an overall review of the financial statements and notes prior to submitting to the auditor as an additional internal control to help ensure accurate financial reporting.

Client Response: Due to the complex nature and significant change in processes, this was not determined to be incorrectly included until fiscal year 2014. The Consortium will continue to review its financial statements and work closely throughout the year with its consultants to help ensure any inconsistencies are caught on a more timely basis.



Dave Yost • Auditor of State

SOUTH CENTRAL OHIO INSURANCE CONSORTIUM

FAIRFIELD 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
MAY 14, 2015**