

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

***FINANCIAL STATEMENT  
(AUDITED)***

**FOR THE FISCAL YEAR ENDED  
JULY 31, 2017**

**JOY COOPER, CHAIRPERSON**





# Dave Yost • Auditor of State

Board of Directors  
San-Ott Insurance Consortium  
811 S. Jefferson Street  
Port Clinton, Ohio 43452

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, 2016 through July 31, 2017. 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 cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

March 19, 2018

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

TABLE OF CONTENTS

Independent Auditor's Report .....	1 - 2
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balance .....	3
Notes to the Financial Statement .....	4 - 6
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	7 - 8
Schedule of Findings and Responses.....	9

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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  
Sandusky County  
811 S. Jefferson Street  
Port Clinton, Ohio 43452

To the Board of Directors:

***Report on the Financial Statement***

We have audited the accompanying financial statement of the San-Ott Insurance Consortium, Sandusky County, Ohio, as of and for the fiscal year ended July 31, 2017, and the related notes to the financial statement.

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

Management is responsible for preparing and fairly presenting this financial statement in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 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 statement is 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 such 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

***Basis for Adverse Opinion***

As described in Note 2 of the financial statement, the San-Ott Insurance Consortium prepared this financial statement using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires this statement to follow accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* 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, 2017, and the respective changes in financial position or cash flows thereof for the fiscal year then ended.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018, 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.  
January 22, 2018



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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCE  
FOR THE FISCAL YEAR ENDED JULY 31, 2017

<b>OPERATING CASH RECEIPTS</b>	
Member Contributions	\$ 10,934,693
Stop Loss Refund	1,296,265
Prescription Drug Rebates	<u>130,595</u>
<b>Total Operating Cash Receipts</b>	<u>12,361,553</u>
<b>OPERATING CASH DISBURSEMENTS</b>	
Claims Paid	9,974,082
Administrative Fees	2,309,217
Transitional Reinsurance Fees	37,243
Professional Fees	59,731
Miscellaneous Fees	<u>9,930</u>
<b>Total Operating Cash Disbursements</b>	<u>12,390,203</u>
<b>Excess of operating cash receipts over/(under) operating disbursements</b>	<u>(28,650)</u>
<b>NON-OPERATING CASH RECEIPTS</b>	
Investment Receipts	<u>95,009</u>
<b>Total Non-Operating Receipts</b>	<u>95,009</u>
<b>Change in Cash Fund Balance</b>	66,359
<b>CASH FUND BALANCE AT BEGINNING OF YEAR</b>	<u>4,347,342</u>
<b>CASH FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 4,413,701</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2017**

**NOTE 1 - 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are presented on the regulatory cash basis of accounting. The regulatory cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the regulatory cash basis of accounting. Following are the more significant of the Consortium’s accounting policies.

**A. Basis of Accounting**

Although required by Ohio Admin. Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the Consortium chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with GAAP. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The Consortium recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. All transactions are accounted for in a single enterprise fund.

As a result of the use of the regulatory cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in this financial statement.

**B. 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, 2017.

**C. 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.

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

NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2017

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The carrying amount of cash and cash equivalents at July 31, 2017 was as follows:

Demand Deposits	<u>\$ 4,413,701</u>
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**A. Deposits**

At July 31, 2017, the carrying amount and bank balance of the Consortium's deposits was \$4,413,701. Deposits are either (1) insured by the Federal Depositary 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.

**B. Investments**

The Consortium did not have any investments as of July 31, 2017.

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

**NOTE 4 - CONTRACTED SERVICES**

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.

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

NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JULY 31, 2017

**NOTE 4 - CONTRACTED SERVICES - (Continued)**

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 Caremark Pharmaceutical Services Group for processing claims for prescription drug benefits.

**NOTE 5 - 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>2017</u>	<u>2016</u>
Cash and Investments	\$4,413,701	\$4,347,342
Actuarial Liabilities	1,142,658	1,217,284

**NOTE 6 - COMPLIANCE**

Ohio Administrative Code, Section 117-2-03(B), requires the Consortium to prepare its annual financial report in accordance with GAAP. However, the Consortium prepared its financial statements on a regulatory cash basis, which is a comprehensive basis of accounting other than GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and disclosures that, while material, cannot be determined at this time. The Consortium can be fined and various other administrative remedies may be taken against the Consortium.



**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  
Sandusky County  
811 S. Jefferson Street  
Port Clinton, Ohio 43452

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 statement of the San-Ott Insurance Consortium, Sandusky County, Ohio, as of and for the fiscal year ended July 31, 2017, and the related notes to the financial statement and have issued our report thereon dated January 22, 2018, wherein we issued an adverse opinion as the San-Ott Insurance Consortium followed financial reporting provisions Ohio Revised Code Section 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 statement. 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 statement is 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2017-001.

***San-Ott Insurance Consortium's Response to Finding***

The San-Ott 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 San-Ott 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 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.  
January 22, 2018

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

**SCHEDULE OF FINDINGS AND RESPONSES  
JULY 31, 2017**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2017-001

Noncompliance

Ohio Rev. Code §117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code §117-2-03 further clarifies the requirements of Ohio Rev. Code §117.38.

Ohio Admin. Code §117-2-03(B) requires the Consortium to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The Consortium prepared its financial statement and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with GAAP. This is also known as the regulatory cash basis of accounting, which differs from GAAP. There would be variances on the financial statement between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the Consortium being fined or other administrative remedies.

The Consortium should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Client Response: The San-Ott Consortium understands this requirement, but feels that there are no financial and/or cost benefits to converting to generally accepted accounting principles and will continue to file on a regulatory cash basis.

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# 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  
APRIL 3, 2018**