

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

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2018*

OHIO AUDITOR OF STATE KEITH FABER



Governing Board
South Central Ohio Insurance Consortium
5240 Plum Road
Carroll, Ohio 43112

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, 2017 through June 30, 2018. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 21, 2019

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

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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
5240 Plum Road
Carroll, Ohio 43112

To the Governing Board:

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, 2018, 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 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 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, 2018, 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.

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* and *Four Year Loss Development Information*, 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 14, 2018, 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 14, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The management's discussion and analysis of the South Central Ohio Insurance Consortium (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Consortium's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- In total, net position was \$24,969,644 at June 30, 2018. This represents an increase of \$1,807,112, or 7.98%, from June 30, 2017's net position.
- The Consortium had operating revenues of \$76,791,742 and operating expenses of \$75,104,523 for fiscal year 2018. The Consortium had \$119,893 in interest revenue earned on the Consortium's investments. Operating income and the increase in net position for the fiscal year was \$1,687,219 and \$1,807,112, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Consortium.

Reporting the Consortium Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2018?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Consortium's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Consortium's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-18 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Required Supplementary Information

Four years of loss development information can be found on pages 21-22 of this report.

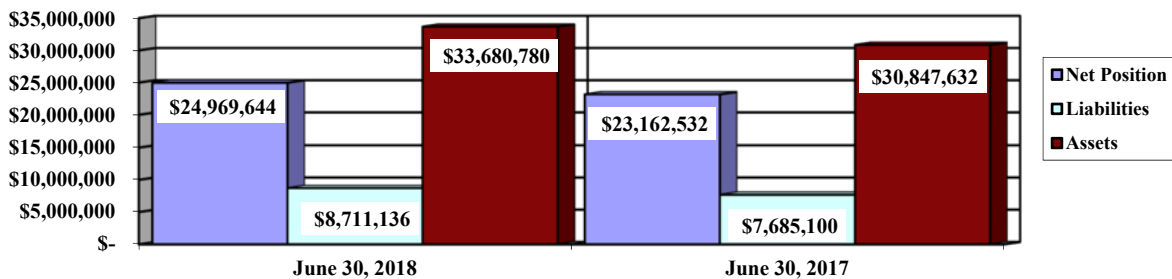
Net Position and Changes in Net Position

The table below provides a summary of the Consortium's net position at June 30, 2018 and June 30, 2017.

Net Position		
	2018	2017
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 10,445,747	\$ 3,257,739
Cash and cash equivalents with fiscal agent	828,322	3,971,509
Investments	21,168,335	22,592,541
Receivables (net of allowance for uncollectibles):		
Accounts	1,153,366	1,025,843
Accrued interest	84,901	-
Prepayments	109	-
Total assets	<u>33,680,780</u>	<u>30,847,632</u>
<u>Liabilities:</u>		
Accounts payable	4,869	-
Claims payable	8,235,800	7,685,100
Unearned revenue	470,467	-
Total liabilities	<u>8,711,136</u>	<u>7,685,100</u>
<u>Net Position:</u>		
Unrestricted	<u>24,969,644</u>	<u>23,162,532</u>
Total net position	<u>\$ 24,969,644</u>	<u>\$ 23,162,532</u>

The assets of the Consortium are comprised mainly of cash and cash equivalents and investments that are held with the Consortium's fiscal agent, Bloom Carroll Local School District. Liabilities of the Consortium are mainly claims payable related to medical, prescription, dental and vision incurred but not reported (IBNR) claims outstanding at fiscal year-end and unearned revenue.

The chart below shows a breakdown of the Consortium's assets, liabilities and net position at June 30, 2018 and June 30, 2017.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

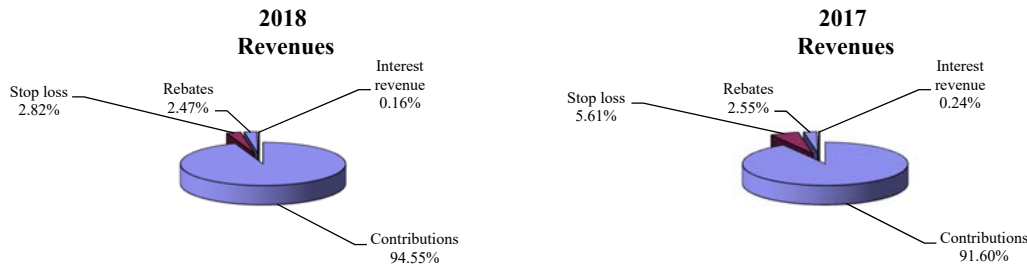
The table below shows the changes in net position for fiscal year 2018 and 2017.

Change in Net Position

	<u>2018</u>	<u>2017</u>
<u>Operating Revenues:</u>		
Receipts from member districts	\$ 72,716,521	\$ 68,101,088
Stop loss revenue	2,171,719	4,169,098
Rebates	<u>1,903,502</u>	<u>1,893,472</u>
Total operating revenue	<u>76,791,742</u>	<u>74,163,658</u>
<u>Operating Expenses:</u>		
Claims	66,380,717	67,157,226
Administrative fees	4,633,729	5,263,038
Stop loss premiums	3,904,253	2,921,394
Life insurance premiums	154,647	168,731
Other professional services	<u>31,177</u>	<u>21,651</u>
Total operating expenses	<u>75,104,523</u>	<u>75,532,040</u>
Operating income (loss)	<u>1,687,219</u>	<u>(1,368,382)</u>
<u>Non-operating revenues:</u>		
Interest revenue	<u>119,893</u>	<u>175,736</u>
Total nonoperating revenues	<u>119,893</u>	<u>175,736</u>
Change in net position	<u>1,807,112</u>	<u>(1,192,646)</u>
Net position, July 1	<u>23,162,532</u>	<u>24,355,178</u>
Net position, June 30	<u>\$ 24,969,644</u>	<u>\$ 23,162,532</u>

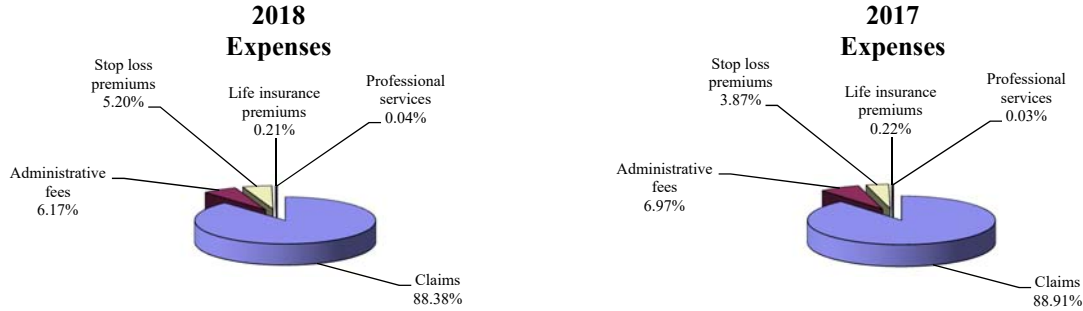
During fiscal year 2018, the Consortium's net position increased by \$1,807,112. The primary reason for the increase related to receipts from member districts which increased \$4,615,433 or 6.78%. This increase was the result of an increase in premiums charged to member districts during fiscal year 2018. Expenses decreased \$427,517 or 0.56%. This decrease was driven by a decrease in claims and administrative fees. Claims decrease due to a decrease in claims incurred relative to fiscal year 2017.

The charts below reflect the percentage of the revenues and expenses in fiscal year 2018 and 2017.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**



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 Consortium's Financial Management

This financial report is designed to provide our member districts, citizens and other interested parties with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Travis Bigam, Treasurer, South Central Ohio Insurance Consortium, 5240 Plum Road, Carroll, Ohio 43112.

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

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:	
Equity in pooled cash and cash equivalents	\$ 10,445,747
Cash and cash equivalents with fiscal agent	828,322
Investments	21,168,335
Receivables:	
Accounts	1,153,366
Accrued interest.	84,901
Prepayments	109
Total assets.	<u>33,680,780</u>
Liabilities:	
Accounts payable.	4,869
Claims payable	8,235,800
Unearned revenue	470,467
Total liabilities	<u>8,711,136</u>
Net position:	
Unrestricted.	<u>24,969,644</u>
Total net position.	<u>\$ 24,969,644</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, 2018

Operating revenues:	
Receipts from member districts	\$ 72,716,521
Stop loss revenue	2,171,719
Rebates	1,903,502
Total operating revenues	<u>76,791,742</u>
 Operating expenses:	
Claims	66,380,717
Administrative fees	4,633,729
Stop loss premiums	3,904,253
Life insurance premiums	154,647
Other professional services	31,177
Total operating expenses	<u>75,104,523</u>
 Operating income	 <u>1,687,219</u>
 Non-operating revenues:	
Interest revenue	119,893
Total nonoperating revenues	<u>119,893</u>
 Change in net position	 1,807,112
 Net position at beginning of year	 <u>23,162,532</u>
Net position at end of year	<u>\$ 24,969,644</u>

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, 2018

Cash flows from operating activities:	
Cash received from member districts	\$ 72,228,577
Cash received from stop loss reimbursements.	3,165,318
Cash received from rebates	1,740,791
Cash payments for claims	(65,830,017)
Cash payments for administrative expenses.	(4,633,669)
Cash payments for stop loss premiums	(3,904,253)
Cash payments for life insurance premiums.	(154,647)
Cash payments for other professional services.	(26,477)
	<hr/>
Net cash provided by operating activities	2,585,623
	<hr/>
Cash flows from investing activities:	
Interest received	293,204
Cash received from the maturity of investments	10,185,831
Cash paid to purchase investments	(9,019,838)
	<hr/>
Net cash provided by investing activities	1,459,197
	<hr/>
Net change in cash and cash cash equivalents	4,044,820
Cash and cash equivalents at beginning of year	7,229,249
Cash and cash equivalents at end of year	\$ 11,274,069
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 1,687,219
Changes in assets and liabilities:	
Accounts receivable	(127,523)
Prepayments	(109)
Accounts payable.	4,869
Claims payable	550,700
Unearned revenue	470,467
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Net cash provided by operating activities	\$ 2,585,623
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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 accounting principles generally accepted in the United States of America (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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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, Bloom Carroll 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. Bloom-Carroll 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. The Consortium also has cash held with the Jefferson Health Plan.

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. The cash held with the Jefferson Health Plan is categorized as "cash with fiscal agent".

During fiscal year 2018, investments were limited to investments in negotiable certificates of deposit (negotiable CD's), Federal Farm Credit Bank Bonds (FFCB) securities, Federal Home Loan Bank (FHLB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities and Federal National Mortgage Association (FNMA) securities.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

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 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

As of June 30, 2018, 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.

I. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria has been satisfied. The unearned revenue for the Consortium represents fiscal year 2019 premiums received in fiscal year 2018.

J. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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. 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 2018, 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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."

A. Cash with Fiscal Agent

At fiscal year end, the Consortium had \$828,322 on deposit with the Jefferson Health Plan. The data regarding insurance and collateralization can be obtained from Jefferson Health Plan. This amount is not included in the Consortium's depositing balance below.

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all Consortium deposits was \$10,445,747 and the bank balance of all Consortium deposits was \$10,458,468. Of the bank balance, \$250,000 was covered by the FDIC and \$10,208,468 was covered by the Ohio Pooled Collateral System.

Custodial credit risk is the risk that, in the event of bank failure, the Consortium will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Consortium has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Consortium and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

C. Investments

As of June 30, 2018, the Consortium had the following investments and maturities:

Measurement/ Investment type	Measurement Amount	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
<i>Fair Value:</i>						
Negotiable CDs	\$ 3,434,382	\$ 748,539	\$ 493,124	\$ 492,315	\$ 246,460	\$ 1,453,944
FFCB	1,220,623	-	-	-	-	1,220,623
FHLB	11,872,913	-	-	-	-	11,872,913
FHLMC	3,668,267	-	-	-	-	3,668,267
FNMA	972,150	-	-	-	-	972,150
Total	\$ 21,168,335	\$ 748,539	\$ 493,124	\$ 492,315	\$ 246,460	\$ 19,187,897

The weighted average maturity of investments is 3.17 years.

The Consortium categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Consortium's investments in negotiable CDs and federal agency securities (FFCB, FHLB, FHLMC, FNMA) are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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 were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. There are no credit ratings given to investments in negotiable certificates of deposit. 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 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018:

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>% of Total</u>
<i>Fair Value:</i>		
Negotiable CDs	\$ 3,434,382	16.22
FFCB	1,220,623	5.77
FHLB	11,872,913	56.09
FHLMC	3,668,267	17.33
FNMA	<u>972,150</u>	<u>4.59</u>
 Total	 <u>\$ 21,168,335</u>	 <u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

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, 2018:

<u>Cash and investments per note</u>	
Cash with fiscal agent	\$ 828,322
Carrying amount of deposits	10,445,747
Investments	<u>21,168,335</u>
Total	<u>\$ 32,442,404</u>
 Cash and investments per statement of net position	 <u>\$ 32,442,404</u>

NOTE 4 - RISK MANAGEMENT

The Consortium established a reserve liability that includes a provision for report and unreported insured events and an estimate of future payment of losses and related loss adjustment expenses. The claims liability as required by GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", was provided by the Consortium's independent actuary, Miller-Lewis Benefits Consultants.

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, 2018 are \$8,235,800. Funds available to pay claims as of that date are \$31,968,747. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 4 - RISK MANAGEMENT - (Continued)

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.

Claims are paid directly by the Consortium upon approval of the claims by the third-party administrator, EBMC. The Consortium purchases 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.

Changes in claims activity for the fiscal year ended June 30, 2018 was as follows (a comparative schedule will be presented in future years when prior year information is available):

	2018
Claims payable at beginning of fiscal year	\$ 7,685,100
<u>Claims expenses:</u>	
Claims expenses for insured events of the current period	59,492,740
Increase in claims expenses for insured events of the prior years	6,887,977
Total claims expenses	66,380,717
<u>Payments:</u>	
Claims expenses paid attributable to insured events of the current year	58,942,040
Claims expenses paid attributable to insured events of prior years	6,887,977
Total claims payments	65,830,017
Claims payable at end of fiscal year	\$ 8,235,800

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.

As of April 4, 2017, The Consortium changed its fiscal agent to Bloom-Carroll Local School District (the Fiscal Agent). The assets and liabilities for the Consortium are reflected in an agency fund on the Fiscal Agent's financial statements.

NOTE 6 - RECEIVABLES

All receivables are shown net of an allowance for uncollectible amounts, as applicable, and are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At June 30, 2018, the Consortium reported \$1,153,366 in accounts receivable related to stop loss reimbursements, rebates and amounts from member districts. The Consortium also reported \$84,901 in accrued interest receivable.

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REQUIRED SUPPLEMENTARY INFORMATION

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

FOUR-YEAR LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Consortium's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table show data for successive accident years. Loss development information for the fiscal years ended June 30, 2015 through 2018 is provided on the next page. Claims information prior to fiscal year 2018 was unavailable.

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

FOUR-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
1. Premiums and investment income	\$ 55,675,344	\$ 64,903,434	\$ 68,276,824	\$ 72,836,414
2. Unallocated expenses	10,230,469	11,676,123	8,374,814	8,723,806
3. Estimated losses incurred and expense, end of year	n/a	n/a	n/a	59,492,740
4. Paid, cumulative as of:				
End of accident year	n/a	n/a	n/a	58,942,040
One year later	n/a	n/a	6,728,907	-
Two years later	n/a	114,584	-	-
Three years later	44,486	-	-	-
Four years later	-	-	-	-
5. Re-estimated incurred losses and expense:				
End of accident year	n/a	n/a	n/a	59,492,740
One year later	n/a	n/a	6,728,907	-
Two years later	n/a	114,584	-	-
Three years later	44,486	-	-	-
Four years later	-	-	-	-
6. Increase in estimated incurred losses and expenses from end of accident year	44,486	114,584	6,728,907	-

n/a - information not available.



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
5240 Plum Road
Carroll, Ohio 43112

To the Governing Board:

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, Ohio, as of and for the fiscal year ended June 30, 2018, 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 14, 2018.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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*.

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 report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 14, 2018

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

Finding Number	Year Initially Occurred	Finding Summary	Status	Additional Information
2017-001	2017	<u>Material Weakness – Financial Statement Presentation</u> – Certain adjustments were required to properly state beginning net position and account receivable accurately in the fiscal year ended June 30, 2017 financial report.	Fully Corrected	N/A

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OHIO AUDITOR OF STATE KEITH FABER



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
MARCH 5, 2019**