

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

***FINANCIAL STATEMENT
(AUDITED)***

**FOR THE FISCAL YEAR ENDED
JULY 31, 2011**

SHANE BAUMGARDNER, CHAIRPERSON



Dave Yost • Auditor of State

Board of Directors
San-Ott Insurance Consortium
9451 E. Harbor Road
Lakeside-Marblehead, Ohio 43440

We have reviewed the *Independent Accountants' Report* of the San-Ott Insurance Consortium, Ottawa County, prepared by Julian & Grube, Inc., for the audit period August 1, 2010 through July 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The San-Ott Insurance Consortium is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 6, 2011

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

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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 Accountants' Report

San-Ott Insurance Consortium
9451 E. Harbor Road
Lakeside-Marblehead, Ohio 43440

To the Board of Directors:

We have audited the accompanying financial statement of the San-Ott Insurance Consortium, Ottawa County, Ohio, as of and for the fiscal year ended July 31, 2011. This financial statement is the responsibility of the San-Ott Insurance Consortium's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the San-Ott Insurance Consortium prepared this financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the San-Ott Insurance Consortium's larger (i.e. major) funds separately. While the San-Ott Insurance Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statement does not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The San-Ott Insurance Consortium has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the fiscal year ended July 31, 2011, does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the San-Ott Insurance Consortium, Ottawa, County, Ohio, as of July 31, 2011, or its changes in financial position or cash flows where applicable for the fiscal year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash fund balance of the San-Ott Insurance Consortium, Ottawa County, Ohio, as of and for the fiscal year ended July 31, 2011, and its cash receipts and disbursements for the fiscal year then ended on the accounting basis Note 1 describes.

The San-Ott Insurance Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statement.

The San-Ott Insurance Consortium has not presented the required supplementary information on receipts and claims development that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2011, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Julian & Grube, Inc.
September 20, 2011

SAN-OTT INSURANCE CONSORTIUM
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
FOR THE FISCAL YEAR ENDED JULY 31, 2011

OPERATING CASH RECEIPTS	
Member Contributions	\$ 12,083,899
Stop Loss Refund	566,962
Prescription Drug Rebates	<u>222,971</u>
Total Operating Cash Receipts	<u>12,873,832</u>
OPERATING CASH DISBURSEMENTS	
Claims Paid	12,555,379
Administrative Fees	509,743
Insurance Premiums	113,151
Professional Fees	98,174
Miscellaneous Fees	<u>1,610</u>
Total Operating Cash Disbursements	<u>13,278,057</u>
Excess of operating cash receipts over/(under) operating disbursements	<u>(404,225)</u>
NON-OPERATING CASH RECEIPTS	
Investment Receipts	<u>68,720</u>
Total Non-Operating Receipts	<u>68,720</u>
Change in cash balance	(335,505)
CASH BALANCE AT BEGINNING OF YEAR	<u>5,797,327</u>
CASH BALANCE AT END OF YEAR	<u><u>\$ 5,461,822</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JULY 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

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

Basis of Accounting

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

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

Cash and Investments

Investments are included in cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as investment receipts. The Consortium did not have any investments as of July 31, 2011.

Certificates of deposit are valued at cost.

Member and Supplemental Contributions

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

NOTE 2 - EQUITY IN CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents at July 31, 2011 was as follows:

Demand Deposits	\$ 1,994,014
Certificates of Deposit	<u>3,467,808</u>
Total Cash and Cash Equivalents	<u>\$ 5,461,822</u>

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JULY 31, 2011

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

Deposits

At July 31, 2011, the carrying amount of the Consortium's deposits was \$5,461,822 and the bank balance was \$5,461,822. Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Consortium, or (3) collateralized by the financial institution's public entity deposit pool.

Investments

Investments in mutual funds (such as STAR Ohio) are not evidenced by securities that exist in physical or book entry form. The Consortium did not have any investments as of July 31, 2011.

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

NOTE 3 - ADMINISTRATIVE FEES

The Consortium has contracted with Medical Mutual of Ohio to provide claims processing and other various administrative services related to processing medical and dental claims. Similarly, the Consortium has contracted with Express Scripts for processing claims for prescription drug benefits.

NOTE 4 - LOSS RESERVE

The Consortium provides health, dental and prescription drug insurance coverage to employees of its members. The Consortium pays covered claims to service providers and recovers these costs through actuarially determined per employee premiums. The loss reserve includes both reported and unreported insured events and estimated future payments of losses adjustment disbursements. A comparison of cash and investments, to the actuarially determined loss receipts (not statement) as of July 31, 2011 is as follows:

Cash and Investments	\$ 5,461,822
Actuarial Loss Reserve	1,881,500

NOTE 5 - SUBSEQUENT EVENT

Effective August 1, 2011, Jeff Dornbusch became Chairperson of the Consortium in accordance with the schedule of rotation of the position.



Julian & Grube, Inc.
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**Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

San-Ott Insurance Consortium
9451 E. Harbor Road
Lakeside-Marblehead, Ohio 43440

To the Board of Directors:

We have audited the financial statement of the San-Ott Insurance Consortium, Ottawa County, Ohio, as of and for the fiscal year ended July 31, 2011, and have issued our report thereon dated September 20, 2011, wherein we noted the San-Ott Insurance Consortium followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the San-Ott Insurance Consortium's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of opining on the effectiveness of the San-Ott Insurance Consortium's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the San-Ott Insurance Consortium's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the San-Ott Insurance Consortium's financial statement will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report is solely for the information and use of the Board of Directors and management of the San-Ott Insurance Consortium. We intend it for no one other than these specified parties.

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

Julian & Grube, Inc.
September 20, 2011

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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
DECEMBER 20, 2011**