

**SAN-OTT INSURANCE CONSORTIUM**

**FINANCIAL STATEMENTS**

**YEAR ENDED JULY 31, 2005**





# Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the San-Ott Insurance Consortium, Sandusky County, prepared by Weber O'Brien, Ltd., for the audit period August 1, 2004 through July 31, 2005. 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 Auditors' 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 Auditors' 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

April 2, 2007

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# SAN-OTT INSURANCE CONSORTIUM

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
San-Ott Insurance Consortium  
1306 Cedar Street  
Fremont, OH 43420

We have audited the accompanying financial statement of the San-Ott Insurance Consortium (San-Ott), as of and for the year ended July 31, 2005, as listed in the table of contents. This financial statement is the responsibility of San-Ott'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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San-Ott Insurance Consortium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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 has 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. Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States, we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of San-Ott Insurance Consortium as of July 31, 2005 or its changes in financial position and cash flows for the year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of the San-Ott Insurance Consortium, as of July 31, 2005 and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

San-Ott Insurance Consortium  
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In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2006, on our consideration of the San Ott'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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

*Walter O'Brien Ltd.*

December 22, 2006

**SAN-OTT INSURANCE CONSORTIUM**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**Year Ended July 31, 2005**

<b>OPERATING RECEIPTS</b>	
Member Contributions	\$ 8,591,567
Drug Rebates	<u>88,297</u>
<b>Total Operating Receipts</b>	<b>8,679,864</b>
 <b>OPERATING DISBURSEMENTS</b>	
Claims Paid	8,348,260
Administrative Fees	672,925
Insurance Premiums	274,339
Professional Fees	41,246
Service Fees	<u>11,953</u>
<b>Total Operating Disbursements</b>	<b><u>9,348,723</u></b>
<b>EXCESS OF OPERATING DISBURSEMENTS OVER OPERATING RECEIPTS</b>	<b>( 668,859)</b>
<b>NON OPERATING RECEIPTS - Interest and Investment Income</b>	<u>89,606</u>
<b>CHANGE IN CASH BALANCES</b>	<b>( 579,253)</b>
<b>CASH BALANCE AT BEGINNING OF YEAR</b>	<u>3,805,542</u>
<b>CASH BALANCE AT END OF YEAR</b>	<b><u><u>\$ 3,226,289</u></u></b>

**"The Accompanying Notes are an Integral  
Part of This Financial Statement"**



**SAN-OTT INSURANCE CONSORTIUM**  
**NOTES TO CASH BASIS FINANCIAL STATEMENT**  
**Year Ended July 31, 2005**

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

**Description of the Entity**

San-Ott Insurance Consortium (“Organization”) 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 ten members to obtain insurance coverage, provide methods for paying claims and provide a formalized jointly administered self-insurance pool. Specifically, the San-Ott Insurance Consortium pool provides coverage for medical, dental, and prescription drug benefits. The members of the Organization include the following: Ottawa County Board of Education, Benton-Carroll LSD, Clyde-Green Springs LSD, Danbury LSD, Genoa LSD, Gibsonburg EV Schools, Port Clinton LSD, Put-In-Bay Schools, Vanguard-Sentinel Career Centers, and Woodmore LSD.

**Basis of Accounting**

This financial statement follows the cash basis of accounting prescribed 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.

These statements include 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 receipts or disbursements, respectively.

Certificates of deposit are valued at cost. The investment in STAROhio (the State Treasurer’s investment pool) is valued at amounts reported by the State Treasurer.

**Member and Supplemental Contributions**

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative expenses of the Organization 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 expenses, the Board of Directors can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Organization and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

**SAN-OTT INSURANCE CONSORTIUM**  
**NOTES TO CASH BASIS FINANCIAL STATEMENT, CONTINUED**  
**Year Ended July 31, 2005**

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

The carrying amount of cash and investments at July 31, 2005 was as follows:

Demand Deposits	\$243,243
Certificates of Deposit	2,428,750
STAROhio	<u>554,296</u>
Total Deposits and Investments	<u>\$3,226,289</u>

**Deposits**

At July 31, 2005, the carrying amount of San-Ott's deposits was \$2,671,993 and the bank balance was \$2,671,993. Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Organization, or (3) collateralized by the financial institution's public entity deposit pool.

**Investments**

Investments in mutual funds (such as STAROhio) are not evidenced by securities that exist in physical or book entry form.

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

**NOTE 3 - ADMINISTRATIVE FEES**

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

**NOTE 4 - LOSS RESERVE**

San-Ott provides health, dental, and prescription drug insurance coverage to employees of its members. San-Ott 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 and related loss adjustment expenses. A comparison of cash and investments, to the actuarially determined loss reserve (not recorded in the accompanying cash basis financial statements) as of July 31, 2005 is as follows:

Cash and Investments	\$3,226,289
Actuarial Loss Reserve	\$1,836,900



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**INDEPENDENT AUDITOR'S 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**

Board of Directors  
San-Ott Insurance Consortium  
1306 Cedar Street  
Fremont, OH 43420

We have audited the accompanying financial statement San-Ott Insurance Consortium (San-Ott) as of and for the year ended July 31, 2005, and have issued our report thereon dated December 22, 2006, wherein we noted that San-Ott followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered San-Ott Insurance Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance**

As part of obtaining reasonable assurance about whether San-Ott Insurance Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on the 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 that are required to be reported under *Government Auditing Standards*.

Board of Directors  
San-Ott Insurance Consortium  
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This report is intended solely for the information of and use of the Board of Directors, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

*Walter O'Brien Ltd.*

December 22, 2006



**Mary Taylor, CPA**  
Auditor of State

**SAN-OTT INSURANCE CONSORTIUM**  
**SANDUSKY 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 12, 2007**