

**Audited Financial Statements**

**CENTRAL OHIO HEALTH  
CARE CONSORTIUM**

**December 31, 2011 and 2010**





# Dave Yost • Auditor of State

Board of Directors  
Central Ohio Health Care Consortium  
200 South Hamilton Road  
Gahanna, Ohio 43230

We have reviewed the *Independent Auditor's Report* of the Central Ohio Health Care Consortium, Franklin County, prepared by Schindler & Adams, for the audit period January 1, 2011 through December 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.

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 Central Ohio Health Care 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

October 9, 2012

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# CENTRAL OHIO HEALTH CARE CONSORTIUM

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Central Ohio Health Care Consortium

We have audited the financial statements of the business-type activities of Central Ohio Health Care Consortium as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Central Ohio Health Care Consortium's management. Our responsibility is to express an opinion on these financial statements 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 *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Ohio Health Care Consortium as of December 31, 2011 and 2010 and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued a report dated June 25, 2012 on our consideration of the Central Ohio Health Care Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and *Reconciliation of unpaid loss and loss adjustment expenses* and *Ten-year loss development information* on pages 20 - 22 be presented 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Schindler & Associates*

Columbus, Ohio

June 25, 2012

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
UNAUDITED**

The management's discussion and analysis of Central Ohio Health Care Consortium ("the Consortium") financial performance provides an overview and analysis of the Consortium's financial activities for the year ended December 31, 2011. 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 notes to enhance their understanding of the Consortium's financial performance.

**Financial Highlights**

Key financial highlights for 2011, 2010 and 2009 are as follows:

- Cash and cash equivalents, including certificates of deposit, were \$860,086 at December 31, 2011, which represents a 66.68% decrease from 2010. Cash and cash equivalents were \$2,580,979 at December 31, 2010, which represents a 28.29% decrease from 2009. Cash and cash equivalents were \$3,598,957 at December 31, 2009, which represents a 10.40% decrease from 2008.
- In 2011, the Consortium purchased U.S. Government securities with a fair market value of \$750,968 at December 31, 2011.
- The Consortium has retained an independent actuary, Willis of Wisconsin, to determine the loss and loss adjustment expense reserves. Based upon the actuary's report, the loss and loss adjustment expense reserves were \$942,398, \$727,007 and \$559,716 at December 31, 2011, 2010 and 2009, respectively.
- The Consortium had operating revenues of \$9,253,014, \$7,841,899 and \$6,681,706 for the years 2011, 2010 and 2009, respectively. The Consortium had operating expenses of \$10,462,232, \$9,125,186 and \$6,913,824 for the years 2011, 2010 and 2009, respectively. The Consortium also reported a net investment gain of \$22,553 for 2011 and a net investment loss of \$2,961 and a net investment gain of \$561, for the years 2010 and 2009, respectively.
- The Consortium had two claims that exceeded the individual stop loss limit of \$175,000 for the plan year ended December 31, 2011, amounting to a recovery of \$32,633. The Consortium three claims that exceeded the individual stop loss limit of \$175,000 for the plan year ended December 31, 2010 amounting to a recovery of \$76,829, and one claim that exceeded the stop loss limit in 2009 amounting to a recovery of \$10,641.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
UNAUDITED**

**Using this Annual Report**

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

*The Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations.

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

**Reporting the Consortium Financial Activities**

*Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows*

The statement of net assets and the statement of revenues, expenses and changes in net assets reflect how the Consortium did financially during the year ended December 31, 2011. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting, similar to accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statements of net assets and the statements of revenues, expenses and changes in net assets report the Consortium's net assets and changes in those assets. This change in the net assets 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.

The statements of cash flows provide information about how the Consortium finances and meets the cash flow needs of its operations.

*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.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
UNAUDITED**

*Required Supplementary Information*

Ten years of loss development information can be found on pages 20-22 of this report.

The table below provides a summary of the Consortium's net assets at December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><i>Assets</i></b>			
Cash and cash equivalents	\$ 137,770	\$ 1,384,320	\$3,598,957
Certificates of deposit	722,316	1,196,659	-
U.S. Government securities	750,968	-	-
Member contribution receivable	15,260	11,399	107,462
Accrued interest receivable	<u>3,877</u>	<u>117</u>	<u>31</u>
Total Assets	<u>1,630,191</u>	<u>2,592,495</u>	<u>3,706,450</u>
<b><i>Liabilities</i></b>			
Unpaid loss and loss adjustment expenses	942,398	727,007	559,716
Deferred participant contributions	20,652	10,616	6,417
Accrued expenses	<u>11,038</u>	<u>12,104</u>	<u>11,301</u>
Total Liabilities	<u>974,088</u>	<u>749,727</u>	<u>577,434</u>
<b><i>Net Assets</i></b>			
Unrestricted	<u>\$ 656,103</u>	<u>\$ 1,842,768</u>	<u>\$ 3,129,016</u>

Net assets in 2011 decreased by \$1,186,665 from 2010 due to expenses exceeding revenues by \$1,209,218, combined with an investment gain of \$22,553. Net assets in 2010 decreased by \$1,286,248 from 2009, due to expenses exceeding revenues by \$1,283,287, combined with an investment loss of \$2,961. Net assets in 2009 decreased by \$231,557 from 2008, due to expenses exceeding revenues by \$232,118, combined with interest income of \$561.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The table below reports the changes in net assets for the years 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><i>Revenues</i></b>			
Member contributions	\$ 9,253,014	\$ 7,841,899	\$ 6,681,706
Investment income (loss)	<u>22,553</u>	<u>(2,961)</u>	<u>561</u>
Total Revenues	<u>9,275,567</u>	<u>7,838,938</u>	<u>6,682,267</u>
<b><i>Expenses</i></b>			
Loss and loss adjustment expenses	9,829,211	8,580,485	6,441,854
Insurance coverages	606,462	517,860	432,061
Legal and professional fees	15,106	12,581	31,551
Other expenses	<u>11,453</u>	<u>14,260</u>	<u>8,358</u>
Total Expenses	<u>10,462,232</u>	<u>9,125,186</u>	<u>6,913,824</u>
Change in Net Assets	<u>\$(1,186,665)</u>	<u>\$(1,286,248)</u>	<u>\$ (231,557)</u>

Net assets were primarily affected by the increase in loss and loss adjustment expenses from \$8,580,485 for 2010 to \$9,829,211 for 2011. The increase in 2011 revenues was primarily due to a new member joining the Plan at the beginning of the 2011 year and an increase in contribution rates for the existing members. The net assets in 2010 were primarily affected due to the increase in loss and loss adjustment expenses incurred from \$6,441,854 in 2009 to \$8,580,485 in 2010.

The loss and loss adjustment expenses incurred during 2011, 2010 and 2009 were \$9,829,211, \$8,580,485, and \$6,441,854, respectively. The ratio of loss and loss adjustment expenses incurred compared to the total revenues earned was 96% for 2009 and increased to 109% for 2010 and then increased to 106% in 2011.

Net investment results for 2011 was a gain of \$22,553, which represents a significant increase from the 2010 investment loss of \$2,961 and the 2009 net investment gain of \$561. The increase was primarily due to the interest income earned from the Consortium's investment in certificates of deposit rather than the money market rates in earned in 2010 and 2009.

**Capital Assets**

The Consortium has no capital assets.

**Debt Administration**

The Consortium has no debt obligations.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
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**Subsequent Events**

The accompanying financial statements have been prepared assuming that the Consortium will continue as a going concern. However, as shown in the accompanying financial statements, the Consortium incurred net operating losses of \$1,209,218 and \$1,283,287 for the years ended December 31, 2011 and 2010, respectively. Accordingly, the net assets of the Consortium decreased from \$3,129,016 at January 1, 2010 to \$656,103 as of December 31, 2011.

In view of these matters, the Board elected to assess the Consortium members a total of \$1,000,000. This supplemental assessment is payable in two equal payments due April 1 and July 31, 2012. The Consortium believes that this supplemental assessment will restore a portion of the decline in net assets caused by the significant losses incurred in 2010 and 2011. The Consortium believes that the premiums as calculated for the 2012 year will be sufficient.

**Current Financial Related Activities**

The Consortium is a not-for-profit insurance consortium owned by nine political subdivisions ("members") located throughout central Ohio. The Consortium's main source of revenue is from contributions/premiums paid by the member political subdivisions. The Consortium also receives interest revenue through its investments.

The Consortium is committed to providing its members with the advantages of a large buying cooperative, while maintaining control by the members' leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interest of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The Consortium Board of Directors and its consultant, Group Benefits Agency, Inc., continually discuss program enhancements to the Plan and the establishment of premium rates. Establishing premium rates that satisfy all claims, administrative expenses and other expenses of the Consortium, in addition to enhancing its net assets is important to the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium Board is the continuing trend of increasing health care costs affecting medical and prescription drug coverages. This was the impetus that brought the participating members together in an attempt to benefit from the economies of scale that could be obtained from a group of approximately 739 covered employees, in lieu of each individual member independently entering the insurance marketplace. As the claims costs for medical and prescription drugs continue to escalate, the Board is faced with the task of attempting to balance a quality benefits offering within the financial constraints of its members. It should be noted that the Consortium again added a new member in 2011. The Consortium continuously entertains offers to other potential members.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
UNAUDITED**

**Contacting the Consortium's Financial Management**

This financial report is designed to provide our members with a general overview of the Central Ohio Health Care Consortium's finances and to reflect the Consortium's accountability for taxpayer monies that it receives from its members. Questions concerning any of the information in this report or requests for additional information should be directed to Jennifer Teal, Treasurer, Central Ohio Health Care Consortium, 200 South Hamilton Road, Gahanna, Ohio 43230.

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
STATEMENTS OF NET ASSETS**

ASSETS	December 31,	
	2011	2010
Current Assets		
Cash and cash equivalents	\$ 137,770	\$ 1,384,320
Certificates of deposit	722,316	1,196,659
US Government securities	750,968	-
Member contributions receivable	15,260	11,399
Accrued interest receivable	3,877	117
Total Current Assets	1,630,191	2,592,495
 TOTAL ASSETS	 \$ 1,630,191	 \$ 2,592,495
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Unpaid loss and loss adjustment expenses - Note D	\$ 942,398	\$ 727,007
Deferred participant contributions	20,652	10,616
Accrued expenses	11,038	12,104
Total Current Liabilities	974,088	749,727
 NET ASSETS		
Unrestricted	656,103	1,842,768
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,630,191	 \$ 2,592,495

See accompanying notes to financial statements

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS**

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Member contributions	\$ 9,253,014	\$ 7,841,899
<b>OPERATING EXPENSES</b>		
Loss and loss adjustment expenses	9,829,211	8,580,485
Excess loss insurance premiums	606,462	517,860
Legal and professional fees	15,106	12,581
Other administrative expenses	11,453	14,260
<b>TOTAL OPERATING EXPENSES</b>	<b>10,462,232</b>	<b>9,125,186</b>
<b>OPERATING LOSS</b>	<b>(1,209,218)</b>	<b>(1,283,287)</b>
<b>NON-OPERATING REVENUES (LOSSES)</b>		
Investment income	18,913	379
Net realized and unrealized gains (losses) on investments	3,640	(3,340)
<b>TOTAL NON-OPERATING REVENUES (LOSSES)</b>	<b>22,553</b>	<b>(2,961)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,186,665)</b>	<b>(1,286,248)</b>
Net Assets, beginning of year	1,842,768	3,129,016
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 656,103</b>	<b>\$ 1,842,768</b>

See accompanying notes to financial statements

**CENTRAL OHIO HEALTH CARE CONSORTIUM  
STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from members	\$ 9,259,113	\$ 7,942,161
Cash payments for excess loss insurance premiums	(606,462)	(517,859)
Cash payments for loss and loss adjustment expenses	(9,596,247)	(8,412,729)
Cash payments for general and administrative	(45,122)	(26,503)
Net cash used in operating activities	(988,718)	(1,014,930)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	12,168	293
Purchase of US Government securities	(1,550,000)	-
Purchase of certificates of deposit	-	(1,200,000)
Proceeds from sale of US Government securities	800,000	-
Proceeds from sale of certificates of deposit	480,000	-
Net cash used in investing activities	(257,832)	(1,199,707)
Net decrease in cash and cash equivalents	(1,246,550)	(2,214,637)
Cash and cash equivalents, beginning of year	1,384,320	3,598,957
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 137,770</b>	<b>\$ 1,384,320</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,209,218)	\$ (1,283,287)
Adjustments to reconcile net income to net cash provided by operating activities		
(Increase) decrease in member contributions receivable	(3,861)	96,063
Increase in incurred but not reported claims	215,391	167,291
Increase in deferred participant contributions	10,036	4,199
Increase (decrease) in accrued expenses	(1,066)	804
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (988,718)</b>	<b>\$ (1,014,930)</b>

See accompanying notes to financial statements

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE A - DESCRIPTION OF THE CONSORTIUM**

The Central Ohio Health Care Consortium (“the Consortium” or “the Plan”) is a legally separate entity organized under Ohio Revised Code Section 9.833. The Consortium was established in 1992, as a joint self-insurance program formed by several political subdivisions throughout central Ohio. The purpose of the Consortium is to maximize benefits and reduce the costs of medical and prescription drug coverages for their employees and eligible dependents. These coverages are described in the summary of coverage benefits, which has been distributed to all member officers and employees covered by the Plan. Participants should refer to the plan agreement for a complete description of the Plan’s provisions.

*Board of Directors*

The Board of Directors is the governing body of the Consortium. Each Consortium Member appoints one individual to be its representative on the Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman, Secretary and Treasurer, who are elected at the annual meeting of the Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors. The Board of Directors sets and approves all benefit programs to be offered through the Consortium, and all policies and other contracts are accepted or entered into by the Consortium. The Board of Directors sets all premium and other amounts to be paid by the Consortium members. All members of the Board of Directors serve without compensation.

*Enrollment by Members*

The original members entered into an irrevocable agreement to remain a member of the Plan for a minimum of three years. Any subsequent new members are required to remain as a member of the Plan until the end of the three year term in effect. As a part of this agreement, each member has agreed to participate in the funding of losses and other insurance related costs and administrative expenses of operating the Plan. The Consortium has established a new pool every three years to continue its self-insurance program.

*Withdrawal of a Consortium Member*

The Consortium Members may withdraw from the Consortium as of the end of the three year trust term by giving written notice no later than September 1 of that year. Non-founding members must remain in the Consortium for a minimum of three years, regardless of the trust term. At and after the effective time of withdrawal, the withdrawing Member is wholly and solely responsible for providing health care benefits that had been previously provided by the Consortium, including but not limited to any and all incurred but not reported claims related to its prior participation. The Consortium will have no liability to the withdrawing member in any regard after the effective date of withdrawal.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE A-DESCRIPTION OF CONSORTIUM- Continued**

*Contributions*

All members are required to remit monthly contributions to the administrator, which are used to pay claims and related claim settlement expenses, to purchase excess loss insurance for the Plan and to establish and maintain sufficient loss reserves. Each member may require contributions from its employees toward the cost of any benefit program being offered, and such contributions are included in the payments from such member to the administrator. The monthly contribution is determined for each member in accordance with the number of covered employees and dependents and the prior loss experience of the respective member group. The members' contributions represent an amount in excess of the expected costs of the Plan, which has allowed the Plan to establish reserves for future operations. The funds are maintained in a bank trust account established for the sole purpose and benefit of the Plan's operations.

*Administration of the Plan*

The Plan has entered into an agreement with Meritain Health, Inc., an independent third party administrator ("the Administrator") to perform the majority of the duties related to the day to day operations of the plan. These duties include full responsibility for the approval and payment of claims submitted under the Plan, authority to pay all expenses incurred in the operation of the Plan and the preparation of a monthly report presenting receipts and disbursements by category, including the Administrator's fees. In addition, the Administrator is required to maintain both a fidelity bond covering all of its agents and employees and an errors and omissions insurance policy.

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

The summary of significant accounting policies of Central Ohio Health Care Consortium is presented to assist in understanding the accompanying financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity.

*Basis of Presentation*

The basic 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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

*Basis of Accounting*

For financial reporting purposes, the Consortium is engaged in business-type activities and utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Consortium distinguishes operating revenues and expenses from non-operating items. Operating revenues generally result from charges to members for insurance premiums, loss contributions, claims handling fees and administrative expenses. Operating expenses include loss and loss adjustment expenses, insurance premiums, administrative fees and professional fees. The principal non-operating revenue of the Consortium is investment income.

*Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Consortium considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

*Valuation of Investments*

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

*Receivables*

All receivables are shown net of an allowance for uncollectible amounts, as applicable. Receivables are written off when deemed uncollectible. The Consortium had no uncollectible amounts at December 31, 2011 and 2010.

*Unpaid Loss and Loss Adjustment Expenses*

Provisions for losses and loss adjustment expenses are charged against income based upon the date the services are rendered to the covered member. These provisions represent an estimate of reported unpaid claims plus a provision for claims incurred but not reported and the administrative costs to process these claims. The liability is determined by an independent actuary, Willis of Wisconsin, and is the amount that results from applying actuarial assumptions to historical claims-cost data.

The Consortium's management believes that the estimate of the liability for unpaid losses and loss adjustment expenses is reasonable. However, the ultimate settlement of losses and the related loss adjustment expenses may vary from the estimated amounts included in the accompanying financial statements.

*Excess Loss Agreement*

The Consortium uses a reinsurance agreement to reduce its exposure to large losses. This excess loss agreement allows the Consortium to recover a portion of losses incurred. The Consortium does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by the excess loss agreement.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Net Assets*

Net assets are the excess of revenues over expenses during the period in which the Consortium has been in existence. If adequate provision has been made for the payment of all claims and expenses of the Consortium, the Board of Directors, at its discretion, may distribute surplus funds to members subject to certain restrictions. In lieu of distributing surplus funds, the Board may carry forward the surplus to future years.

*Member Contributions*

Member contributions are recognized on an accrual basis and are recorded in the month earned. Contributions receivable represent contributions due, but not received in the current period. Deferred contributions represent the portion of contributions received, which will be earned in a future period.

*Estimates*

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of Consortium assets, liabilities and benefit obligations, and the reported increases and decreases of Consortium assets during the reporting periods. Actual results could differ from those estimates.

*Federal Income Tax*

The Consortium has received an exemption from Federal income tax as an organization formed under Section 501(c)(9) of the Internal Revenue Code. The Consortium is not classified as a private foundation.

**NOTE C - CASH AND INVESTMENTS**

The Consortium's cash and investments are held by the Trustee in a bank located in central Ohio. The cash and cash equivalents were \$137,770 and \$1,384,320 at December 31, 2011 and 2010, respectively. The maximum uninsured loss that would have resulted from that risk at December 31, 2010, totaled \$1,134,320.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. The Consortium uses Level 1 inputs, which is the appropriate valuation technique to measure the fair value of its investments.

The carrying amounts of cash, cash equivalents and short-term receivables reported in the statement of net assets approximate fair values because of the short maturities of those financial instruments.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE C - CASH AND INVESTMENTS - Continued**

The Consortium's investments are reported at fair value in the accompanying statement of net assets.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<i>December 31, 2011:</i>		
Certificates of deposit	\$ 722,316	\$ 722,316
U.S. Government securities	<u>750,968</u>	<u>750,968</u>
Total	<u>\$ 1,473,284</u>	<u>\$ 1,473,284</u>
<i>December 31, 2010:</i>		
Certificates of deposit	<u>\$ 1,196,659</u>	<u>\$ 1,196,659</u>

In December 2010, the Consortium invested in five certificates of deposit of \$240,000 each with five separate banking institutions. It is the Consortium's policy that certificates of deposit may not exceed 50% of the total investment portfolio.

Fair value of individual investments that represent 5.0% or more of the Consortium's net assets are as follows:

	<u>2011</u>	<u>2010</u>
<i>U.S. Government securities:</i>		
FHLB 1.35%, 02/03/2015-2012	\$ 500,320	\$ -
FHLB 1.05%, 08/08/2014-2012	250,648	-
<i>Certificates of Deposit:</i>		
Aurora Bank .7%, 6/22/2012	240,220	239,174
BMW Bank of North America 1.0%, 07/01/2013	241,342	238,713
Merrick Bank .8%, 12/28/2012	240,754	238,942
Banco Popular .35%, 6/29/2011	-	239,830
GE Capital Financial, Inc. .5%, 12/28/2012	-	240,000

The following schedule summarizes the investment return and its classification in the statement of changes in net assets for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest	\$ 18,913	\$ 379
Realized losses	(2,814)	-
Unrealized gains (losses)	<u>6,454</u>	<u>(3,340)</u>
Total Investment Return	<u>\$ 22,553</u>	<u>\$ (2,961)</u>

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE D - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

The Plan has retained the services of two independent third party administrators, Meritain Health, Inc. for medical claims and Caremark RX, LLC for prescription claims, both experienced in claim request processing. A valid claim must be submitted to the Administrator within ninety days after services have been provided. However, the Plan will accept claims up to twelve months after the usual filing deadline with a valid reason for the late filing of such a claim.

The provision for unpaid losses and loss adjustment expenses is based upon an estimate, prepared by an independent actuary, Willis of Wisconsin, for claims reported as of year end and those claims incurred but not reported to the Plan as of year end. The inherent uncertainty in estimating reserves may result in actual ultimate claims differing significantly from amounts provided for in the balance sheet.

The Consortium is contingently liable with respect to excess loss coverage which would become a liability in the event that the excess loss insurance carriers are unable to meet the obligations assumed under these contracts. Claims in excess of members' surplus, additional member assessments and excess carriers coverage are the responsibility of the members and not the Consortium.

For measurement purposes at December 31, 2011, a 5.3% annual rate of increase in cost of covered health care benefits was assumed, which compared to an assumed increase of 14.0% for the 2010 plan year. At December 31, 2011 and 2010, the breakdown of unpaid loss and loss adjustment expenses was as follows:

	2011	2010
Medical and prescription drug	\$ 994,000	\$ 844,000
Loss adjustment expenses	50,000	42,000
	1,044,000	886,000
Less:		
Stop losses recoverable	32,633	76,829
Prescription rebates receivable	68,969	82,164
Total Liability	\$ 942,398	\$ 727,007

**NOTE E - EXCESS LOSS AGREEMENT**

The Consortium has entered into an agreement for individual and aggregate excess loss coverage with a commercial insurance carrier. The individual excess loss coverage has been structured to indemnify the Plan for medical claims paid to an individual in excess of \$175,000 in 2011 and 2010, with an individual lifetime maximum of \$2,000,000 and \$1,825,000 for 2011 and 2010, respectively. The aggregate excess loss coverage has been structured to indemnify the Plan for aggregate claims paid in excess of \$10,989,145 in 2011 and \$10,171,499 in 2010, to a maximum of \$1 million annually per covered individual. The cost of the excess loss coverage was \$606,462 in 2011 and \$517,860 in 2010.

The Consortium had incurred losses recoverable in excess of the \$175,000 individual loss limit in 2011 of \$32,633 and in 2010 of \$76,829.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE F - RELATED PARTY TRANSACTION**

The Consortium's Administrator for medical claims is associated with the excess loss insurance carrier and receives a commission on the premiums paid for both the individual and aggregate excess loss coverages. The Administrator received commissions of \$30,212 in 2011 and \$32,442 in 2010.

**NOTE G - CONCENTRATIONS OF CREDIT RISK**

The Consortium has concentrated its credit risk for cash and cash equivalents by maintaining deposits in a high quality bank located in central Ohio. The maximum uninsured loss that would have resulted from that risk at December 31, 2010 was \$1,134,320.

The Consortium's members are political subdivisions generally located in central Ohio, which represents a limited number of potential Plan members. The Plan's membership has decreased from a high of thirteen members to nine members as of December 31, 2011.

**NOTE H - TERMINATION OF PLAN**

Under certain conditions, the Plan may be terminated. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used to pay benefits to the participants as calculated by the Administrator. Any remaining assets will then be returned to the participating members.

If a participating member terminates its agreement with the Consortium, that member immediately becomes responsible for its benefit obligation. If a member terminates before its three year term has expired, the member forfeits all rights to the Consortium's member reserves.

**NOTE I - THIRD PARTY ADMINISTRATION**

The Consortium has agreements with third party administrators for the purpose of claims administration, claims adjustments, loss control and financial record keeping. For the years ended December 31, 2011 and 2010, the amounts charged to expense were \$454,341 and \$355,195, respectively.

**NOTE J - SUBSEQUENT EVENTS**

The Consortium has evaluated subsequent events through June 25, 2012, the date which the financial statements were available to be issued.

**NOTE K - SUBSEQUENT EVENTS - MEMBER ASSESSMENTS**

The accompanying financial statements have been prepared assuming that the Consortium will continue as a going concern. However, as shown in the accompanying financial statements, the Consortium incurred net operating losses of \$1,209,218 and \$1,283,287 for the years ended December 31, 2011 and 2010, respectively. Accordingly, the net assets of the Consortium decreased from \$3,129,016 at January 1, 2010 to \$656,103 as of December 31, 2011.

**CENTRAL OHIO HEALTH CARE CONSORTIUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 and 2010**

**NOTE K - SUBSEQUENT EVENTS - MEMBER ASSESSMENTS - Continued**

In view of these matters, the Board elected to assess the Consortium members a total of \$1,000,000. The members individual assessments were calculated by using their proportional share of premiums billed for the two year period ended December 31, 2011. This supplemental assessment is payable in two equal payments due April 1 and July 31, 2012. The Consortium believes that this supplemental assessment will restore a portion of the decline in net assets caused by the significant losses incurred in 2010 and 2011. The Consortium believes that the premiums as calculated for the 2012 year will be sufficient.

**SCHEDULE I--RECONCILIATION OF UNPAID LOSS AND LOSS  
ADJUSTMENT EXPENSES  
REQUIRED SUPPLEMENTARY INFORMATION  
CENTRAL OHIO HEALTH CARE CONSORTIUM**

The Consortium established a reserve liability that includes a provision for reported and unreported insured events and an estimate of future payment of losses and loss adjustment expenses. The liability was provided by the Consortium's independent actuary, Willis of Wisconsin, for the years ended December 31, 2011 and 2010 as follows:

	(in thousands)	
	<u>2011</u>	<u>2010</u>
Unpaid loss and loss adjustment expenses at the beginning of the year	\$ 727	\$ 560
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	9,879	8,631
Decrease in provision for insured events of the prior year	<u>(50)</u>	<u>(51)</u>
Total incurred losses and loss adjustment expenses	9,829	8,580
Payments:		
Loss and loss adjustment expenses attributable to insured events of current year	8,779	7,863
Loss and loss adjustment expenses attributable to insured events of prior years	<u>835</u>	<u>550</u>
Total payments	<u>9,614</u>	<u>8,413</u>
Total unpaid losses and loss adjustment expenses at the end of the year	<u>\$ 942</u>	<u>\$ 727</u>

**SCHEDULE II - TEN YEAR CLAIMS DEVELOPMENT INFORMATION  
REQUIRED SUPPLEMENTARY INFORMATION  
CENTRAL OHIO HEALTH CARE CONSORTIUM**

The table below illustrates how the Consortium's earned revenues (net of reinsurance) and investment income compared to related costs of loss and other expenses assumed by the Consortium as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each year's earned contribution and investment revenues.
- (2) This line shows each year's other operating costs of the Consortium including overhead and loss expense not allocable to individual claims.
- (3) This line shows the Consortium's incurred losses originally reported at the end of the year in which the event that triggered coverage under the contract occurred ("policy year").
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows how each policy year's incurred losses increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest reestimated incurred losses amount to the amount originally established and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**SCHEDULE II - TEN YEAR CLAIMS DEVELOPMENT INFORMATION  
REQUIRED SUPPLEMENTARY INFORMATION  
CENTRAL OHIO HEALTH CARE CONSORTIUM**

	Policy Year Ended (in thousands)									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Net earned required contribution and investment revenues	7,098	8,542	8,447	8,899	6,983	5,279	5,467	6,682	7,839	9,276
2. Unallocated expenses	335	366	299	365	329	338	336	472	544	632
3. Estimated incurred claims and expenses	6,875	8,043	7,208	7,447	6,561	5,607	5,247	6,874	9,098	10,435
4. Paid (cumulative) as of:										
End of policy year	6,108	7,419	6,527	7,058	6,003	4,862	4,368	5,918	7,863	8,779
One year later	6,652	8,047	7,003	7,429	6,262	5,522	4,984	6,468	8,698	
Two years later	6,656	8,047	7,003	7,429	6,262	5,522	4,984	6,468		
Three years later	6,656	8,047	7,003	7,429	6,262	5,522	4,984			
Four years later	6,656	8,047	7,003	7,429	6,262	5,522				
Five years later	6,656	8,047	7,003	7,429	6,262					
Six years later	6,656	8,047	7,003	7,429						
Seven years later	6,656	8,047	7,003							
Eight years later	6,656	8,047								
Nine years later	6,656									
5. Reestimated incurred claims and expenses										
End of policy year	6,875	8,043	7,208	7,447	6,561	5,607	5,020	6,478	8,631	9,879
One year later	6,652	8,124	7,003	7,429	6,262	5,522	4,984	6,427	8,581	
Two years later	6,656	8,047	7,003	7,429	6,262	5,522	4,984	6,427		
Three years later	6,656	8,047	7,003	7,429	6,262	5,522	4,984			
Four years later	6,656	8,047	7,003	7,429	6,262	5,522				
Five years later	6,656	8,047	7,003	7,429	6,262					
Six years later	6,656	8,047	7,003	7,429						
Seven years later	6,656	8,047	7,003							
Eight years later	6,656	8,047								
Nine years later	6,656									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(219)	4	(205)	(18)	(299)	(85)	(36)	(51)	(50)	



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**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***

We have audited the financial statements of the Central Ohio Health Care Consortium (“the Consortium”) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Central Ohio Health Care Consortium is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Consortium’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Central Ohio Health Care Consortium’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Central Ohio Health Care 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, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Consortium’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Central Ohio Health Care 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 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*.

We noted certain matters that we reported to the Central Ohio Health Care Consortium's management, in a separate letter dated June 25, 2012.

This report is intended solely for the information and use of the management and Board of Directors of the Central Ohio Health Care Consortium, and is not intended to be and should not be used by anyone other than these specified parties.

*Schindler & Associates*

Columbus, Ohio  
June 25, 2012



# Dave Yost • Auditor of State

**CENTRAL OHIO HEALTH CARE CONSORTIUM**

**FRANKLIN 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  
OCTOBER 23, 2012**