

Clermont County Insurance Consortium
Clermont County
Regular Audit
For the Fiscal Year Ended June 30, 2014



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Dave Yost • Auditor of State

Board of Directors
Clermont County Insurance Consortium
2400 Clermont Center Drive, Suite 100
Batavia, Ohio 45103

We have reviewed the *Independent Auditors' Report* of the Clermont County Insurance Consortium, Clermont County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Clermont County 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

October 6, 2014

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Clermont County Insurance Consortium
Clermont County
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For the Fiscal Year Ended June 30, 2014

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Independent Auditor's Report

Board of Directors
Clermont County Insurance Consortium
2400 Clermont Center Drive, Suite 100
Batavia, Ohio 45103

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Clermont County Insurance Consortium, Clermont County, (the Consortium) as of and for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D); this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 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 Consortium's internal control. Accordingly, we express no 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Consortium prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

Clermont County Insurance Consortium
Independent Auditor's Report

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Clermont County Insurance Consortium, Clermont County, as of June 30, 2014, and its cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The loss reserve development is presented for purposes of additional analysis and is not a required part of the financial statements.

The loss reserve development is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the loss development reserve is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the 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 Consortium's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP, President/Owner
Millhuff-Stang, CPA, Inc.
September 30, 2014

Clermont County Insurance Consortium
Clermont County
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balances
For the Fiscal Year Ended June 30, 2014

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<i>Operating Cash Receipts:</i>	
Charges for Services	\$18,546,626
Miscellaneous	<u>27,713</u>
<i>Total Operating Cash Receipts</i>	<u>18,574,339</u>
<i>Operating Cash Disbursements:</i>	
Claims	16,513,298
Administrative and Stop Loss Fees	1,634,782
Other Purchased Services	39,558
Life Insurance	<u>108,686</u>
<i>Total Operating Cash Disbursements</i>	<u>18,296,324</u>
<i>Operating Cash Receipts Over Operating Cash Disbursements</i>	<u>278,015</u>
<i>Non-Operating Cash Receipts:</i>	
Interest	<u>4,567</u>
<i>Total Non-Operating Cash Receipts</i>	<u>4,567</u>
<i>Net Receipts Over Disbursements</i>	282,582
<i>Cash Balance, July 1</i>	<u>5,232,956</u>
<i>Cash Balance, June 30</i>	<u><u>\$5,515,538</u></u>

The notes to the financial statements are an integral part of this statement.

Clermont County Insurance Consortium
Clermont County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Clermont County Insurance Consortium, Clermont County, Ohio (the Consortium), formed July 1, 2008, is a Regional Council of Governments, governed by and construed in accordance with the laws of the State, and it is the intention of the Consortium members that their agreements shall comply with Section 9.833 of the Ohio Revised Code. The Consortium was established for the purpose of exercising the rights and privileges conveyed to it by the by-laws (agreement) of the Consortium.

The Clermont County Insurance Consortium is a legally separate organization. The Consortium is in a jointly governed organization with member governmental entities. The Consortium was formed for the purpose of establishing and carrying out a cooperative health program for its member governmental entities. The governing board consists of the superintendent or other designee appointed by each of the members of the Consortium.

The Consortium utilizes the Clermont County Educational Service Center as its fiscal agent. The financial activity for the Consortium is reflected as an agency fund of the fiscal agent.

Management believes the financial statements included in this report represent all of the financial activity of the Consortium over which the Consortium has the ability to exercise direct operating control.

The Consortium is a self-funded pool for health (medical and prescription drug) and dental insurance. The Consortium uses third party administrators to process claims, approve and deny claims, and make payments to the providers. Anthem is the third party administrator for health insurance and Dental Care Plus for dental insurance. To protect the Consortium from catastrophic claims, the Consortium purchased excess stop loss insurance for its health plan. This coverage, which includes a specific stop loss limit of \$300,000 per subscriber up to a maximum of \$5,000,000 per subscriber and aggregate stop loss at 115% of expected claims to an aggregate maximum of \$2,000,000. Stop loss coverage for dental is not considered necessary because there is a maximum benefit in place.

The Consortium also provides life insurance, Section 125, and COBRA administration.

The Consortium uses a third party administrator, EPC Benefits Office, to administer monthly billing and collection from Consortium members and for payments to insurance companies.

The Consortium uses Gallagher Benefit Services, Inc. for the management, bidding, and actuarial services.

Any Consortium member wishing to withdraw from participation in the Consortium shall give notification at least one hundred eighty days prior to the July 1 anniversary date of the Consortium's health plan. The effective date of withdraw will be June 30. Any Consortium member which withdraws from the Consortium shall have no claim to the Consortium's assets and shall not be entitled to the return or refund of any premiums or other amounts paid, directly or indirectly, by such Consortium member to the Consortium. A withdrawing member may not become a Consortium member again for period of 3 years.

Clermont County Educational Service Center is located at 2400 Clermont Center Drive, Suite 100, Batavia, Ohio 45103.

Clermont County Insurance Consortium
Clermont County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Consortium's cash is held and invested by the Clermont County Educational Service Center, (the Service Center), who acts as custodian of Consortium monies. The Consortium's assets are held by the Service Center in a separate demand deposit account and in STAR Ohio and STAR Plus accounts. The investments in STAR Ohio (the State Treasurer's investment pool) and STAR Plus are valued at amounts reported by the State Treasurer.

D. 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.

E. Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those receipts that are generated directly from the primary activity of the proprietary fund. For the Consortium, these cash receipts are charges for insurance services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Receipts and disbursements not meeting these definitions are reported as non-operating.

2. CASH AND INVESTMENTS

The Service Center is the fiscal agent for the Consortium. The Service Center maintains specific deposits and investments for the Consortium. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments held by the Service Center for the Consortium at June 30, 2014 was as follows:

Cash:	
Demand Deposits	\$2,988,898
Investments:	
STAR Ohio	269,028
STAR Plus	<u>2,257,612</u>
Total Deposits and Investments	<u>\$5,515,538</u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or by a collateral pool established by the financial institution to secure the repayment of all public monies with the institution

Investments: Investments in STAR Ohio and STAR Plus are not evidenced by securities that exist in physical or book-entry form.

Clermont County Insurance Consortium
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

3. RISK MANAGEMENT

The Clermont County Insurance Consortium, Clermont County, Ohio (the Consortium), is a Regional Council of Governments, governed by and construed in accordance with the laws of the State, and it is the intention of the Consortium members that their agreements shall comply with Section 9.833 of the Ohio Revised Code. The Consortium was established for the purpose of exercising the rights and privileges conveyed to it by the by-laws (agreement) of the Consortium.

The Consortium is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors is composed of one representative from each member school.

The Consortium is self-insured for health and dental insurance. Annual premiums are determined by a majority vote of the Directors.

Member schools may withdraw from the Consortium, and may be removed for failure to make the required payments. Upon withdraw of any Consortium member, the Consortium shall pay the run out of all benefit claims for such Consortium member provided such Consortium member has paid to the Consortium prior to the effective date of withdraw a withdraw fee in the amount equal to two (2) months' premiums at such Consortium member's then current rates.

Any Consortium member which withdraws from the Consortium shall have no claim to the Consortium's assets and shall not be entitled to the return or refund of any premiums or other amounts paid, directly or indirectly, by such Consortium member to the Consortium. A withdrawing member may not become a Consortium member again for period of three (3) years.

4. LOSS RESERVE

The loss reserve for the Clermont County Insurance Consortium is a two (2) month run out plus estimated administrative fees at termination. At June 30, 2014, the two month run out for health was \$2,637,453 and the estimated administrative fee at termination was \$152,680. The dental two (2) month run out was \$216,600 for 2014 and the estimated fee at termination was \$5,544. The Consortium also attempts to maintain an additional health surplus of 115% of the aggregate, which was \$2,373,708 for 2014. The Consortium's excess cash balance over the reserve/surplus calculation at June 30, 2014 was \$232,442.

5. ACTUARIAL REPORT

Actuarial valuations of claim liability were performed for the year ended June 30, 2014. The purpose of the valuations is to estimate claims that have been incurred, whether reported at June 30, 2014, or not, as of the valuation date. A comparison of the Consortium's cash and investments to the actuarially-measured liability as of June 30, 2014 follows:

Cash and Investments	\$5,515,538
Actuarial Liability	1,668,800

Clermont County Insurance Consortium
Clermont County
Supplementary Information
For the Fiscal Year Ended June 30, 2014

Loss Reserve Development

The following table illustrates how the Consortium's cash receipts (including investment income) compared to related payments of claims and other cash disbursements made by the Consortium as of the end of the fiscal year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross received premiums, miscellaneous and investment income.
- (2) This line shows non-claims related cash disbursements of the Consortium for each fiscal year including premiums, administrative fees, professional fees, and other miscellaneous cash disbursements.
- (3) This section shows the cumulative net amount of claims paid as of the end of the accident year.

The Consortium reports data on the cash basis of accounting. Premiums and investment income are recorded when received and unallocated cash disbursements and claims are recorded when paid by the Consortium. A claims liability is not recorded under the Consortium's cash basis of accounting. The Consortium became self-insured through Anthem and Dental Care Plus effective July 1, 2008.

Loss reserve development information for the fiscal year ended June 30, 2014 is as follows:

(1) Premiums, Miscellaneous, and Investment Income	\$18,578,906
(2) Unallocated Cash Disbursements	1,783,026
(3) Paid, Cumulative as of the End of the Accident Year	16,513,298

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*

Independent Auditor's Report

Board of Directors
Clermont County Insurance Consortium
2400 Clermont Center Drive, Suite 100
Batavia, Ohio 45103

We have audited, in accordance with the 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, the financial statements of the Clermont County Insurance Consortium, Clermont County, (the Consortium) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2014, wherein we noted the Consortium followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control.

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 and correct, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP, President/Owner
Millhuff-Stang, CPA, Inc.
September 30, 2014

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Dave Yost • Auditor of State

CLERMONT COUNTY INSURANCE CONSORTIUM

CLERMONT 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 16, 2014