

Audited Financial Statements

**CENTRAL OHIO HEALTH
CARE CONSORTIUM**

December 31, 2014 and 2013



Dave Yost • Auditor of State

Board of Directors
Central Ohio Health Care Consortium
200 South Hamilton Road
Gahanna, Ohio 43250

We have reviewed the *Independent Auditor's Report* of the Central Ohio Health Care Consortium, Franklin County, prepared by Schindler & Associates, CPAs, for the audit period January 1, 2014 through December 31, 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 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

May 20, 2015

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Ohio Health Care Consortium (a nonprofit organization) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements which collectively comprise the Consortium's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Ohio Health Care Consortium as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and *Ten-year loss development information* on pages 18 - 19 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting 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 provided any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2015, 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 in considering Central Ohio Health Care Consortium's internal control over financial reporting and compliance.


Columbus, Ohio
March 25, 2015

CENTRAL OHIO HEALTH CARE CONSORTIUM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
UNAUDITED

The discussion and analysis of the Central Ohio Health Care Consortium's ("the Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Consortium's financial performance.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Consortium's basic financial statements. The Consortium uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

The basic financial statements, which follow this section, provide both long and short-term information about the Consortium's financial status. The statement of net position and the statement of revenue, expenses, and changes in net position provide information about the financial activities of the Consortium. These are followed by the statement of cash flows, which represents detailed information about the changes in the Consortium's cash position during the year.

Financial Overview

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The three basic financial statements presented are as follows:

Statement of Net Position - This statement presents information reflecting the Consortium's assets, liabilities, and net position and is categorized into current assets and liabilities.

Statement of Revenues, Expenses, and Changes in Net Position - This statement reflects the operating and non-operating revenue and expenses for the current year. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being losses and loss adjustment expenses, general and administrative expenses, and reinsurance costs. Non-operating revenue and expenses consist of investment activity.

Statement of Cash Flows - This statement is presented on the direct method of reporting and reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-17 of this report.

CENTRAL OHIO HEALTH CARE CONSORTIUM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
UNAUDITED

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- Cash and cash equivalents were \$4,994,090 at December 31, 2014, which represents a decrease of 2.63% from 2013.
- 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 \$996,000 and \$888,000 at December 31, 2014 and 2013, respectively.
- The Consortium had operating revenues of \$12,248,576 and \$11,906,772 for the years 2014 and 2013, respectively. The Consortium had operating expenses of \$12,222,963 and \$10,714,027 for the years 2014 and 2013, respectively. The Consortium also reported net investment gains of \$1,378 and \$1,846 for 2014 and 2013.
- The Consortium had three claims that exceeded the individual stop loss limit of \$175,000 for the plan year ended December 31, 2014, amounting to a recovery of \$235,629. The Consortium had four claims that exceeded the individual stop loss limit of \$175,000 for the plan year ended December 31, 2013 amounting to a recovery of \$325,563.

The table below provides a summary of the Consortium's net position at December 31, 2014 and 2013.

	Net Position	
	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 4,994,090	\$ 5,129,075
Receivables:		
Stop loss recoverable	208,449	38,910
Prescription rebates	120,101	106,219
Member contributions	3,116	10,812
Claims refund	-	9,128
Accrued interest receivable	<u>109</u>	<u>123</u>
Total Assets	<u>5,325,865</u>	<u>5,294,267</u>
<u>Liabilities</u>		
Unpaid loss and loss adjustment expenses	996,000	888,000
Deferred participant contributions	-	98,450
Accrued expenses	<u>11,204</u>	<u>16,147</u>
Total liabilities	<u>1,007,204</u>	<u>1,002,597</u>
<u>Net Position</u>		
Unrestricted	<u>4,318,661</u>	<u>4,291,670</u>
Total net position	<u>\$ 4,314,661</u>	<u>\$ 4,291,670</u>

CENTRAL OHIO HEALTH CARE CONSORTIUM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
UNAUDITED

Net position in 2014 increased \$26,991 from 2013 as a result of member contributions and other operating revenues exceeding operating expenses by \$25,613, combined with an investment gain of \$1,378.

The stop loss recoverable at December 31, 2014, decreased by \$89,934 due to incurring less claims in excess of the individual limit in 2014, as compared to 2013 .

The unpaid loss and loss adjustment expenses liability increased \$108,000, or 12.16%, from December 31, 2013. The unpaid loss adjustment expenses liability at year-end is provided by Willis of Wisconsin, the Consortium's independent actuary.

The table below shows the changes in net position for fiscal years 2014 and 2013.

Change in Net Position

	<u>2014</u>	<u>2013</u>
<u>Revenues</u>		
Operating revenues	\$12,248,576	\$ 11,906,772
Investment income (loss)	<u>1,378</u>	<u>1,846</u>
Total revenues	<u>12,249,954</u>	<u>11,908,618</u>
<u>Expenses</u>		
Loss and loss adjustment expenses	10,925,216	9,519,395
Insurance coverages	591,025	541,642
Legal and professional fees	160,289	105,698
Administrative fees & other expenses	<u>546,433</u>	<u>547,292</u>
Total operating expenses	<u>12,222,963</u>	<u>10,714,027</u>
Change in net position	<u>\$ 26,991</u>	<u>\$ 1,194,591</u>

The Consortium's net position was affected by the increase in loss and loss adjustment expenses from \$9,519,395 in 2013 to \$10,925,216 in 2014 and the increase in operating revenues from \$11,906,772 in 2013 to \$12,248,576 in 2014.

The loss and loss adjustment expenses incurred during 2014 and 2013 were \$10,925,216 and \$9,519,395, respectively. The ratio of loss and loss adjustment expenses incurred compared to the total revenues earned was 89% for 2014 compared to 80% for 2013.

Net investment results were net gains of \$1,378 and \$1,846 for 2014 and 2013.

Required Supplemental Information

Ten years of loss development information can be found on pages 18-19 of this report.

Capital Assets and Debt Administration

At December 31, 2014 and 2013, the Consortium had no capital assets or outstanding debt obligations.

CENTRAL OHIO HEALTH CARE CONSORTIUM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
UNAUDITED

Current Financial Related Activities

The Consortium is a not-for-profit insurance consortium owned by ten 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 position, is important to the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium Board of Directors is the continuing trend of increasing health care costs affecting medical and prescription drug coverage. 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 720 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 Consortium Board of Directors is faced with the task of attempting to balance a quality benefits offering within the financial constraints of its members. The Consortium continuously entertains offers to potential members.

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 financial information should be directed to Molly Roberts, Co-Treasurer, Central Ohio Health Care Consortium, 6550 N High St, Worthington, Ohio 43085.

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

	December 31,	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,994,090	\$ 5,129,075
Accounts receivable		
Stop loss recoverable	208,449	38,910
Prescription rebates	120,101	106,219
Member contributions	3,116	10,812
Refunds	-	9,128
Accrued interest receivable	109	123
	<u>5,325,865</u>	<u>5,294,267</u>
Total Current Assets		
	<u>5,325,865</u>	<u>5,294,267</u>
TOTAL ASSETS	<u>\$ 5,325,865</u>	<u>\$ 5,294,267</u>
LIABILITIES		
Current Liabilities		
Unpaid loss and loss adjustment expenses (see Note 5)	\$ 996,000	\$ 888,000
Deferred participant contributions	-	98,450
Accrued expenses	11,204	16,147
	<u>1,007,204</u>	<u>1,002,597</u>
Total Current Liabilities	1,007,204	1,002,597
NET POSITION		
Unrestricted	<u>4,318,661</u>	<u>4,291,670</u>
TOTAL NET POSITION	<u>\$ 4,318,661</u>	<u>\$ 4,291,670</u>

See accompanying notes to financial statements

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

	Years Ended December 31,	
	2014	2013
OPERATING REVENUES		
Member contributions	\$ 11,608,174	\$ 11,264,081
Prescription drug rebates	297,920	210,991
Stop loss reimbursements	235,629	325,563
Other revenue	106,853	106,137
TOTAL OPERATING REVENUES	<u>12,248,576</u>	<u>11,906,772</u>
OPERATING EXPENSES		
Loss and loss adjustment expenses	10,925,216	9,519,395
Excess loss insurance premiums	591,025	541,642
Legal and professional fees	160,289	105,698
Administrative fees	453,247	450,426
Other expenses	93,186	96,866
TOTAL OPERATING EXPENSES	<u>12,222,963</u>	<u>10,714,027</u>
OPERATING INCOME	25,613	1,192,745
NON-OPERATING REVENUES		
Investment income (loss)	1,378	2,818
Net realized and unrealized loss on investments	-	(972)
TOTAL NON-OPERATING REVENUES	<u>1,378</u>	<u>1,846</u>
CHANGE IN NET POSITION	26,991	1,194,591
Net Position, beginning of year	<u>4,291,670</u>	<u>3,097,079</u>
NET POSITION, END OF YEAR	<u>\$ 4,318,661</u>	<u>\$ 4,291,670</u>

See accompanying notes to financial statements

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

	Years Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$ 11,517,421	\$ 11,352,636
Cash received from prescription drug rebates	284,038	187,692
Cash received from stop loss reimbursements	66,091	1,044,305
Cash received from miscellaneous revenues	115,981	97,010
Cash payments for loss and loss adjustment expenses	(10,822,217)	(9,736,366)
Cash payments for excess loss insurance premiums	(591,025)	(498,158)
Cash payments for legal and professional fees	(164,678)	(99,627)
Cash payments for administrative fees	(453,247)	(450,426)
Cash payments for miscellaneous expenses	(88,741)	(147,895)
	(136,377)	1,749,171
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	1,392	1,911
Proceeds from sale of certificates of deposit	-	240,972
	1,392	242,883
Net cash provided by investing activities	1,392	242,883
Net increase (decrease) in cash and cash equivalents	(134,985)	1,992,054
Cash and cash equivalents, beginning of year	5,129,075	3,137,021
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,994,090	\$ 5,129,075
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 25,613	\$ 1,192,745
Adjustments to reconcile net income to net cash provided by operating activities		
(Increase) decrease in stop loss recoverable	(169,539)	718,742
Increase in prescription rebate receivable	(13,882)	(23,299)
Decrease in member contributions receivable	7,696	6,330
(Increase) decrease in refunds receivable	9,128	(9,128)
Decrease in prepaid excess loss premium	-	43,484
Increase (decrease) in incurred but not reported claims	108,000	(268,000)
Increase (decrease) in deferred participant contributions	(98,450)	82,226
Increase (decrease) in accrued expenses	(4,943)	6,071
	(136,377)	1,749,171
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (136,377)	\$ 1,749,171

See accompanying notes to financial statements

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

NOTE 1 - DESCRIPTION OF THE CONSORTIUM

The Central Ohio Health Care Consortium (the "Consortium") 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.

A. 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.

B. 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.

C. 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, 2014 and 2013

NOTE 1 - DESCRIPTION OF THE CONSORTIUM - (Continued)

D. 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.

E. Administration of the Plan

Effective January 1, 2013, the Plan has entered into an agreement with UMR, 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the 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.

A. 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.

B. Basis of Accounting

For financial reporting purposes, the Consortium is engaged in the 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.

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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

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

C. 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.

D. 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.

E. 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, 2014 and 2013.

F. 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.

G. 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.

H. Net Position

Net position is 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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014 and 2013

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

I. 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.

J. 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.

K. 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. Under ASC No. 740-10, the Consortium's tax returns for the years 2010 - 2014 are subject to examination by tax authorities.

L. Reclassifications

Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2013, the Consortium has implemented GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 66, "*Technical Corrections-2012*".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Consortium.

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014 and 2013

NOTE 4 - CASH AND INVESTMENTS

The Consortium's cash and cash equivalents are held by the Trustee in a bank located in central Ohio. The cash and cash equivalents were \$4,751,187 and \$5,129,075 at December 31, 2014 and 2013. The maximum uninsured loss that would have resulted from that risk at December 31, 2014 and 2013 totaled \$4,744,090 and \$4,913,937.

The Consortium had no investments outstanding at December 31, 2014 or 2013.

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 and cash equivalents and short-term receivables reported in the statements of net position approximate fair values because of the short maturities of those financial instruments.

The Consortium had investments in a certificate of deposit of \$240,000 that matured during 2013. It is the Consortium's policy that certificates of deposit may not exceed 50% of total investment portfolio.

The following schedule summarizes the investment return and its classification in the statements of revenues, expenses and changes in net position for the years ended December 31, 2014 and 2013 :

	<u>2014</u>	<u>2013</u>
Interest	\$ 1,378	\$ 2,818
Realized losses	<u>-</u>	<u>(972)</u>
Total Investment return	<u>\$ 1,378</u>	<u>\$ 1,846</u>

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

NOTE 5 - LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

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, 2014 and 2013 as follows:

	(in thousands)	
	<u>2014</u>	<u>2013</u>
Unpaid loss and loss adjustment expenses at the beginning of the year	\$ 888	\$1,156
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	10,825	9,569
Increase (decrease) in provision for insured events of the prior year	<u>100</u>	<u>(50)</u>
Total incurred losses and loss adjustment expenses	10,925	9,519
Payments:		
Loss and loss adjustment expenses attributable to insured events of current year	9,829	8,681
Loss and loss adjustment expenses attributable to insured events of prior years	<u>988</u>	<u>1,106</u>
Total payments	<u>10,817</u>	<u>9,787</u>
Total unpaid losses and loss adjustment expenses at the end of the year	<u>\$ 996</u>	<u>\$ 888</u>

NOTE 6 - UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

The Consortium has retained the services of two independent third party administrators: UMR for medical claims and ExpressScripts, Inc. for prescription claims. A valid claim must be submitted to the Administrator within ninety days after services have been provided. However, the Consortium will accept claims up to twelve months after the usual filing deadline with a valid reason for the late filing of such a claims.

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 Consortium 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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014 and 2013

NOTE 6 - UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES - (Continued)

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 carrier coverage are the responsibility of the members and not the Consortium.

For measurement purposes at December 31, 2014, an 7.0% annual rate of increase in cost of covered health care benefits was assumed, which compared to an assumed increase of 8.0% for the 2013 plan year. At December 31, 2014 and 2013, the breakdown of unpaid loss and loss adjustment expenses was as follows:

	<u>2014</u>	<u>2013</u>
Medical and prescription drug	\$ 949,000	\$ 846,000
Loss adjustment expenses	<u>47,000</u>	<u>42,000</u>
Total Liability	<u>\$ 996,000</u>	<u>\$ 888,000</u>

NOTE 7 - 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 Consortium for medical claims paid to an individual in excess of \$175,000 in 2014 and 2013. The aggregate excess loss coverage has been structured to indemnify the Consortium for aggregate claims paid in excess of \$12,540,899 and \$12,000,255 in 2014 and 2013, to a maximum of \$1 million annually per covered individual. The cost of excess loss coverage was \$591,025 and \$541,642 in 2014 and 2013.

The Consortium has incurred losses recoverable in excess of the \$175,000 individual loss limit in 2014 of \$235,629 and 2013 of \$325,563.

NOTE 8 - 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, 2014 and 2013 was \$4,751,187 and \$4,913,937.

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 ten members in 2014.

NOTE 9 - 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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

NOTE 10 - 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, 2014 and 2013, the amounts charged to expense were \$453,247 and \$450,426.

NOTE 11 - SUBSEQUENT EVENTS

The Consortium has evaluated subsequent events through March 25, 2015, the date which the financial statements were available to be issued.

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

	Policy Year Ended (in thousands)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Net earned required contribution and investment revenues	8,899	6,983	5,279	5,467	6,682	7,839	9,276	11,518	11,909	12,250
2. Unallocated expenses	365	329	338	336	472	544	632	1,007	1,195	1,297
3. Estimated incurred claims and expenses	7,447	6,561	5,607	5,020	6,478	8,631	9,879	8,629	9,569	10,834
4. Paid (cumulative) as of:										
End of policy year	7,058	6,003	4,862	4,368	5,918	7,863	8,779	7,473	8,681	9,834
One year later	7,429	6,262	5,522	4,984	6,468	8,698	9,631	8,579	9,669	
Two years later	7,429	6,262	5,522	4,984	6,468	8,698	9,631	8,579		
Three years later	7,429	6,262	5,522	4,984	6,468	8,698	9,631			
Four years later	7,429	6,262	5,522	4,984	6,468	8,698				
Five years later	7,429	6,262	5,522	4,984	6,468					
Six years later	7,429	6,262	5,522	4,984						
Seven years later	7,429	6,262	5,522							
Eight years later	7,429	6,262								
Nine years later	7,429									
5. Reestimated incurred claims and expenses										
End of policy year	7,447	6,561	5,607	5,020	6,478	8,631	9,879	8,629	9,569	10,834
One year later	7,429	6,262	5,522	4,984	6,468	8,698	9,631	8,579	9,669	
Two years later	7,429	6,262	5,522	4,984	6,468	8,698	9,631	8,579		
Three years later	7,429	6,262	5,522	4,984	6,468	8,698	9,631			
Four years later	7,429	6,262	5,522	4,984	6,468	8,698				
Five years later	7,429	6,262	5,522	4,984	6,468					
Six years later	7,429	6,262	5,522	4,984						
Seven years later	7,429	6,262	5,522							
Eight years later	7,429	6,262								
Nine years later	7,429									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(18)	(299)	(85)	(36)	(10)	67	(248)	(50)	100	



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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***

To the Board of Directors
Central Ohio Health Care Consortium

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 business-type activities of Central Ohio Health Care Consortium as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Central Ohio Health Care Consortium's basic financial statements, and have issued our report thereon dated March 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Ohio Health Care 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Ohio Health Care Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Central Ohio Health Care 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 the 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 Central Ohio Health Care 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.

Schindler & Associates

Columbus, Ohio
March 25, 2015



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
JUNE 2, 2015**