

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE YEAR ENDED
DECEMBER 31, 2017*



Dave Yost • Auditor of State

Board of Directors
Central Ohio Health Care Consortium
47 Hall Street
Powell, Ohio 43065

We have reviewed the *Independent Auditor's Report* of the Central Ohio Health Care Consortium, Franklin County, prepared by Julian & Grube, Inc., for the audit period January 1, 2017 through December 31, 2017. 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

August 10, 2018

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**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Central Ohio Health Care Consortium
Franklin County
47 Hall Street
Powell, Ohio 43065

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Ohio Health Care Consortium, Franklin County, Ohio, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Central Ohio Health Care Consortium's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are 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 Central Ohio Health Care 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 Central Ohio Health Care Consortium's internal control. Accordingly, we express no such 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Ohio Health Care Consortium, Franklin County, Ohio, as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the 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 requires this presentation to include *Management's discussion and analysis* and *Ten-Year Claims Development Information*, listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Report on Summarized Comparative Information

We have previously audited the Central Ohio Health Care Consortium's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the Central Ohio Health Care 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 Central Ohio Health Care Consortium's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
June 25, 2018

CENTRAL OHIO HEALTH CARE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 (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 year ended December 31, 2017. 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 nonoperating 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. Nonoperating 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 YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Financial Highlights

Key financial highlights for 2017 are as follows:

- Cash and investments were \$5,936,265 at December 31, 2017, which represents an increase of 2.49% from 2016.
- The Consortium has retained an independent actuary to determine the loss and loss adjustment expense reserves. Based upon the actuary's report, the loss and loss adjustment expense reserves were \$1,962,996 and \$1,820,004 at December 31, 2017 and 2016, respectively.
- The Consortium had operating revenues of \$14,362,359 and \$13,979,661 for the years 2017 and 2016, respectively. The Consortium had operating expenses of \$14,276,620 and \$14,933,891 for the years 2017 and 2016, respectively. The Consortium also reported investment income of \$29,543 and \$8,987 for the years 2017 and 2016, respectively.
- The Consortium had one claim that exceeded the individual stop loss limit of \$200,000 for the plan year ended December 31, 2017, amounting to a recovery of \$172,281. The Consortium had five claims that exceeded the individual stop loss limit of \$200,000 for the plan year ended December 31, 2016 amounting to a recovery of \$563,109.
- In 2017, the Consortium was involved in subrogation and a stop loss reimbursement settlement related to 2015 and 2016 claims. The Consortium is expected to receive a reimbursement of \$52,774 (net of \$119,507 in subrogation for a 2015 claim) from the Consortium's stop loss provider.

The table below provides a summary of the Consortium's net position at December 31, 2017 and 2016.

| | Net Position | |
|--|---------------------|--------------|
| | 2017 | 2016 |
| <u>Assets</u> | | |
| Cash and investments | \$ 5,936,265 | \$ 5,792,058 |
| Receivables: | | |
| Stop loss recoverable | 52,774 | 28,962 |
| Prescription rebates | 306,422 | 287,614 |
| Member contributions | 105,234 | 136,528 |
| Accrued interest receivable | 2,536 | 1,023 |
| Total assets | 6,403,231 | 6,246,185 |
| <u>Liabilities:</u> | | |
| Unpaid loss and loss adjustment expenses | 1,962,996 | 1,820,004 |
| Unearned participant contributions | 41,627 | 7,041 |
| Subrogation | - | 133,176 |
| Accrued expenses | 1,808 | 4,445 |
| Total liabilities | 2,006,431 | 1,964,666 |
| <u>Net Position:</u> | | |
| Unrestricted | 4,396,800 | 4,281,519 |
| Total net position | \$ 4,396,800 | \$ 4,281,519 |

CENTRAL OHIO HEALTH CARE CONSORTIUM

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Net position in 2017 increased \$115,282 from 2016 as a result of decreased loss and loss adjustment expenses not exceeding member contributions and other operating revenues during 2017.

The stop loss recoverable receivable at December 31, 2017, increased due to incurring fewer claims expected to be paid out in excess of the individual limit in 2017, as compared to 2016.

The unpaid loss and loss adjustment expenses liability increased \$142,992, or 7.86%, from December 31, 2016. The unpaid loss adjustment expenses liability at December 31, 2017 and 2016 is provided by Wells Fargo and Willis of Wisconsin, respectively, the Consortium's independent actuary. The table below shows the changes in net position for 2017 and 2016.

Change in Net Position

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|-------------------|---------------------|
| <u>Revenues</u> | | |
| Operating revenues | \$ 14,362,359 | \$ 13,979,661 |
| Investment income | <u>29,543</u> | <u>8,987</u> |
| Total revenues | <u>14,391,902</u> | <u>13,988,648</u> |
| <u>Expenses</u> | | |
| Loss and loss adjustment expenses | 12,716,054 | 13,385,155 |
| Insurance coverages | 700,805 | 792,137 |
| Legal and professional fees | 16,523 | 190,548 |
| Administrative fees & other expenses | <u>843,238</u> | <u>566,051</u> |
| Total operating expenses | <u>14,276,620</u> | <u>14,933,891</u> |
| Change in net position | <u>\$ 115,282</u> | <u>\$ (945,243)</u> |

The Consortium's net position was affected by the loss and loss adjustment expenses from \$13,385,155 in 2016 to \$12,716,054 in 2017 decreasing and operating revenues of \$13,979,661 in 2016 increasing to \$14,362,359 in 2017. The loss and loss adjustment expenses incurred during 2017 and 2016 were \$12,716,054 and \$13,385,155, respectively. The ratio of loss and loss adjustment expenses incurred compared to the total revenues earned was 88% for 2017 compared to 96% for 2016.

Net investment results were an investment income of \$29,543 for 2017, compared to \$8,987 for 2016.

Capital Assets and Debt Administration

At December 31, 2017 and 2016, the Consortium had no capital assets or outstanding debt obligations.

Required Supplemental Information

Ten years of claims development information can be found on pages 18-20 of this report.

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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 (UNAUDITED)

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 770 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 Debra Miller, Treasurer, Central Ohio Health Care Consortium, 47 Hall Street, Powell, Ohio 43065.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET POSITION
(WITH COMPARATIVE AMOUNTS FOR 2016)

| | December 31, | |
|--|---------------------|--------------|
| | 2017 | 2016 |
| Assets: | | |
| Current assets: | | |
| Cash and investments | \$ 5,936,265 | \$ 5,792,058 |
| Accounts receivable: | | |
| Stop loss recoverable. | 52,774 | 28,962 |
| Prescription rebates. | 306,422 | 287,614 |
| Member contributions | 105,234 | 136,528 |
| Accrued interest receivable | 2,536 | 1,023 |
| Total assets. | 6,403,231 | 6,246,185 |
| Liabilities: | | |
| Current liabilities: | | |
| Unpaid loss and loss adjustment expenses (see Note 5). | 1,962,996 | 1,820,004 |
| Unearned participant contributions | 41,627 | 7,041 |
| Subrogation. | - | 133,176 |
| Accrued expenses. | 1,808 | 4,445 |
| Total liabilities | 2,006,431 | 1,964,666 |
| Net position: | | |
| Unrestricted. | 4,396,800 | 4,281,519 |
| Total net position. | \$ 4,396,800 | \$ 4,281,519 |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
(WITH COMPARATIVE AMOUNTS FOR 2016)

| | Year Ended December 31, | |
|--|--------------------------------|---------------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| Member contributions | \$ 13,499,844 | \$ 12,668,339 |
| Prescription drug rebates | 580,881 | 535,511 |
| Stop loss reimbursements | 172,281 | 563,109 |
| Other revenue | 109,353 | 212,702 |
| Total operating revenues | <u>14,362,359</u> | <u>13,979,661</u> |
| Operating expenses: | | |
| Loss and loss adjustment expenses | 12,716,054 | 13,385,155 |
| Excess loss insurance premiums | 700,805 | 792,137 |
| Legal and professional fees | 16,523 | 190,548 |
| Administrative fees | 771,190 | 491,026 |
| Other expenses | 72,049 | 75,025 |
| Total operating expenses | <u>14,276,620</u> | <u>14,933,891</u> |
| Operating income (loss) | <u>85,739</u> | <u>(954,230)</u> |
| Non-operating revenues: | | |
| Investment income | 29,543 | 8,987 |
| Total non-operating revenues | <u>29,543</u> | <u>8,987</u> |
| Change in net position | 115,282 | (945,243) |
| Net position, beginning of year | <u>4,281,518</u> | <u>5,226,761</u> |
| Net position, end of year | <u>\$ 4,396,800</u> | <u>\$ 4,281,518</u> |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
(WITH COMPARATIVE AMOUNTS FOR 2016)

| | Year Ended December 31, | |
|--|--------------------------------|---------------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Cash received from members. | \$ 13,565,724 | \$ 12,829,636 |
| Cash received from prescription drug rebates | 562,073 | 462,839 |
| Cash received from stop loss reimbursements | 148,469 | 652,438 |
| Cash received from miscellaneous revenues | 109,353 | 345,878 |
| Cash payments for loss and loss adjustment expenses | (12,573,062) | (12,711,151) |
| Cash payments for excess loss insurance premiums | (700,805) | (792,137) |
| Cash payments for legal and professional fees. | (19,160) | (230,199) |
| Cash payments for administrative fees | (771,190) | (491,026) |
| Cash payments for miscellaneous expenses | (205,225) | (75,575) |
| | 116,177 | (9,297) |
| Cash flows from investing activities: | | |
| Interest received | 39,964 | 8,116 |
| Purchase of investments | (1,492,124) | - |
| | (1,452,160) | 8,116 |
| Net decrease in cash and cash and cash equivalents. | (1,335,983) | (1,181) |
| Cash and cash equivalents, beginning of year | 5,792,058 | 5,793,239 |
| Cash and cash equivalents, end of year. | \$ 4,456,075 | \$ 5,792,058 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss). | \$ 85,738 | \$ (954,230) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Changes in assets and liabilities: | | |
| Decrease (increase) in stop loss recoverable | (23,812) | 89,329 |
| (Increase) in prescription rebate receivable | (18,808) | (72,672) |
| Decrease in member contributions receivable. | 31,294 | 154,255 |
| Increase in incurred but not reported claims | 142,992 | 674,004 |
| Increase in deferred participant contributions | 34,586 | 7,041 |
| Increase (decrease) in subrogation payable | (133,176) | 133,176 |
| (Decrease) in accrued expenses. | (2,637) | (40,201) |
| | 116,177 | (9,298) |
| Net cash provided by (used in) operating activities | \$ 116,177 | \$ (9,298) |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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 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
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

C. Cash and Investments

During 2017, investments of the Consortium were limited to negotiable certificates of deposit (CDs), commercial paper, and federal agency securities. Investments are reported at fair value, which is based on quoted market prices. For the purposes of the statements of cash flows, the Consortium considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents.

D. Fair Value Measurements

The Consortium categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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, 2017 and 2016.

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 at December 31, 2017 and 2016, is determined by an independent actuary, Wells Fargo and Willis of Wisconsin, respectively, 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
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 2012 - 2017 are subject to examination by tax authorities.

NOTE 3 - 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 \$4,456,075 and \$5,792,058 at December 31, 2017 and 2016, respectively.

The Consortium may invest in the following instruments: U.S. Government Securities, U.S. Government Agency Securities and Instrumentalities of Government Sponsored Agencies, Interest-Bearing Certificates of Deposit, Mutual Funds, and State Treasury Asset Reserve of Ohio, Repurchase Agreements, and Commercial Paper.

As of December 31, 2017, the Consortium had the following investments and maturities:

| Measurement/ <u>Investment type</u> | Measurement <u>Amount</u> | <u>Investment Maturities</u> | | | | |
|--|------------------------------|------------------------------|---------------------------|----------------------------|----------------------------|-----------------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>13 to 18 months</u> | <u>19 to 24 months</u> | <u>Greater than 24 months</u> |
| Fair Value: | | | | | | |
| Negotiable CDs | \$ 203,228 | \$ - | \$ - | \$ - | \$ - | \$ 203,228 |
| Commercial Paper | 371,383 | 371,383 | - | - | - | - |
| FNMA | 195,706 | - | - | - | - | 195,706 |
| FHLB | 448,493 | - | - | - | 152,687 | 295,805 |
| FHLMC | 261,380 | - | - | - | - | 261,380 |
| Total | <u>\$ 1,480,190</u> | <u>\$ 371,383</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 152,687</u> | <u>\$ 956,119</u> |

The weighted average maturity of investments is 2.69 years.

The Consortium had no investments outstanding at December 31, 2016.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

The Consortium's investment in commercial paper, negotiable CDs, FNMA, FHLB, and FHLMC securities are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Consortium's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The investment in commercial paper carries ratings of P-1 by Moodys and A-1 by Standard & Poor's. The investment in FHLB, FNMA, and FHLMC securities carries ratings of Aaa by Moody's and AA+ by Standard & Poor's. The negotiable CDs were not rated. The negotiable CDs are covered by FDIC. The Consortium's investment policy does not specifically address credit risk beyond requiring the Consortium to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Consortium will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Consortium's name. The Consortium has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Consortium Treasurer or qualified trustee.

Concentration of Credit Risk: The Consortium places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Consortium at December 31, 2017:

| <u>Measurement/ Investment type</u> | <u>Measurement Amount</u> | <u>% of Total</u> |
|---|-------------------------------|-------------------|
| Fair Value: | | |
| Negotiable CDs | \$ 203,228 | 13.73 |
| Commercial Paper | 371,383 | 25.09 |
| FNMA | 195,706 | 13.22 |
| FHLB | 448,493 | 30.30 |
| FHLMC | <u>261,380</u> | <u>17.66</u> |
| Total | <u>\$ 1,480,190</u> | <u>100.00</u> |

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2017:

| | |
|--------------------------------------|---------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 4,456,075 |
| Investments | <u>1,480,190</u> |
| Total | <u>\$ 5,936,265</u> |

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------|------------------|-----------------|
| Interest | \$ 29,543 | \$ 8,987 |
| Total Investment Return | <u>\$ 29,543</u> | <u>\$ 8,987</u> |

NOTE 4 - 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, Wells Fargo and Willis of Wisconsin, for the years ended December 31, 2017 and 2016, respectively, as follows:

| | (in thousands) | |
|--|-----------------|-----------------|
| | <u>2017</u> | <u>2016</u> |
| Unpaid loss and loss adjustment expenses at the beginning of the year | \$ 1,820 | \$ 1,146 |
| Incurred loss and loss adjustment expenses: | | |
| Provision for insured events of the current year | 13,670 | 13,115 |
| Increase (decrease) in provision for insured events of the prior years | <u>(954)</u> | <u>270</u> |
| Total incurred loss and loss adjustment expenses | 12,716 | 13,385 |
| Payments: | | |
| Loss and loss adjustment expenses attributable to insured events of the current year | 11,707 | 11,295 |
| Loss and loss adjustment expenses paid attributable to insured events of prior years | <u>866</u> | <u>1,416</u> |
| Total payments | <u>12,573</u> | <u>12,711</u> |
| Unpaid losses and loss adjustment expenses at end of the year | <u>\$ 1,963</u> | <u>\$ 1,820</u> |

NOTE 5 - 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 claim.

The provision for unpaid losses and loss adjustment expenses is based upon an estimate, prepared by an independent actuary 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 for amounts provided for in the statement of net position.

**CENTRAL OHIO HEALTH CARE CONSORTIUM
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 5 - 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, 2017 and 2016 plan year, a 10.00% and 13.50% annual rate of increase in cost of covered health care and prescription benefits, respectively, was assumed. At December 31, 2017 and 2016, the breakdown of unpaid loss and loss adjustment expenses was as follows:

| | 2017 | 2016 |
|-------------------------------|--------------|--------------|
| Medical and prescription drug | \$ 1,789,304 | \$ 1,641,679 |
| Loss adjustment expenses | 173,692 | 178,325 |
| Total liability | \$ 1,962,996 | \$ 1,820,004 |

NOTE 6 - 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 \$200,000 in 2017 and 2016. The aggregate excess loss coverage has been structured to indemnify the Consortium for aggregate claims paid in excess of \$13,483,095 and \$12,622,553 in 2017 and 2016, to a maximum of \$1 million annually per covered individual. The cost of excess loss coverage was \$700,805 and \$792,137 in 2017 and 2016, respectively.

The Consortium has incurred losses recoverable in excess of the \$200,000 individual loss limit in 2017 of \$172,281 and 2016 of \$563,109, respectively.

NOTE 7 - 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, 2017 and 2016 was \$4,084,409 and \$5,504,524, respectively.

The Consortium's members are political subdivisions generally located in Central Ohio, which represents a limited number of potential Plan members. The Plan had ten members in 2017 and 2016, respectively.

NOTE 8 - 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
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 9 - 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 year ended December 31, 2017 and 2016, the amount charged to expense was \$771,190 and \$491,026, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL OHIO HEALTH CARE CONSORTIUM

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION REQUIRED SUPPLEMENTARY INFORMATION

The following table illustrates how the Consortium's earned revenues (net of reinsurance) and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each year's gross earned contributions and reported investment income.
- (2) This line shows each year's other operating costs of the Consortium including overhead and loss expenses 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 occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end 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 re-estimation results from new information received on known claims, re-evaluation of existing information on known claims and emergence of new losses not previously known.
- (6) This line compares the latest re-estimated incurred losses amount to the amount originally established (line 3) 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 re-estimated 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.

CENTRAL OHIO HEALTH CARE CONSORTIUM

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (CONTINUED)

| | Policy Year Ended (in thousands) | | | | | |
|--|----------------------------------|----------|----------|----------|-----------|-----------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 1. Net earned required contribution and investment revenues | \$ 5,467 | \$ 6,682 | \$ 7,839 | \$ 9,276 | \$ 11,518 | \$ 11,909 |
| 2. Unallocated expenses | 336 | 472 | 544 | 632 | 1,007 | 1,195 |
| 3. Estimated incurred claims and expenses | 5,020 | 6,478 | 8,631 | 9,879 | 8,629 | 9,569 |
| 4. Paid, cumulative as of: | | | | | | |
| End of policy year | 4,368 | 5,918 | 7,863 | 8,779 | 7,473 | 8,681 |
| One year later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Two years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Three years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Four years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Five years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | - |
| Six years later | 4,984 | 6,468 | 8,698 | 9,631 | - | - |
| Seven years later | 4,984 | 6,468 | 8,698 | - | - | - |
| Eight years later | 4,984 | 6,468 | - | - | - | - |
| Nine years later | 4,984 | - | - | - | - | - |
| 5. Re-estimated incurred claims and expense: | | | | | | |
| End of policy year | 5,020 | 6,478 | 8,631 | 9,879 | 8,629 | 9,569 |
| One year later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Two years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Three years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Four years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | 9,669 |
| Five years later | 4,984 | 6,468 | 8,698 | 9,631 | 8,579 | - |
| Six years later | 4,984 | 6,468 | 8,698 | 9,631 | - | - |
| Seven years later | 4,984 | 6,468 | 8,698 | - | - | - |
| Eight years later | 4,984 | 6,468 | - | - | - | - |
| Nine years later | 4,984 | - | - | - | - | - |
| 6. Increase (decrease) in estimated incurred claims and expense from end of policy year | (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 Required by *Government Auditing Standards***

Central Ohio Health Care Consortium
Franklin County
47 Hall Street
Powell, Ohio 43065

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Central Ohio Health Care Consortium, Franklin County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Central Ohio Health Care Consortium's basic financial statements and have issued our report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Central Ohio Health Care Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Central Ohio Health Care Consortium's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Central Ohio Health Care Consortium's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Central Ohio Health Care Consortium

Compliance and Other Matters

As part of reasonably assuring whether the Central Ohio Health Care Consortium's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results and does not opine on the effectiveness of the Central Ohio Health Care Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Central Ohio Health Care Consortium's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
June 25, 2018

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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
AUGUST, 23 2018**