

LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM

LOGAN COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2015

ERIC ADELSBERGER, TREASURER



Dave Yost • Auditor of State

Board of Trustees
Logan County School Employee Consortium
4740 County Rd. 26
Bellefontaine, Ohio 43311

We have reviewed the Independent Auditor's Report of the Logan County School Employee Consortium, Logan County, prepared by Julian & Grube, Inc., for the audit period January 1, 2015 through December 31, 2015. 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 Logan County School Employee 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

June 6, 2016

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**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Logan County School Employee Consortium
Logan County
4740 County Rd. 26
Bellefontaine, Ohio 43311

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Logan County School Employee Consortium, Logan County, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Logan County School Employee 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 Logan County School Employee 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 Logan County School Employee 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 overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Logan County School Employee Consortium, Logan County, Ohio, as of December 31, 2015, 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 require this presentation to include *Management's discussion and analysis* and *Loss 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016, on our consideration of the Logan County School Employee 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 Logan County School Employee Consortium's internal control over financial reporting and compliance.



Julian & Grube, Inc.
April 25, 2016

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The management's discussion and analysis of the Logan County School Employee Consortium's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the year ended December 31, 2015. 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.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position was \$1,820,361 at December 31, 2015.
- The Consortium had operating revenues of \$6,627,712 and operating expenses of \$5,378,905 for 2015. The Consortium had \$1,331 in investment income and an unrealized loss on investments of \$9,651.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Consortium.

Reporting the Consortium Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Consortium's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Consortium's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-15 of this report.

Required Supplementary Information

Loss development information can be found on pages 16-17 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Consortium's net position for 2015 and 2014.

	2015	2014
Net Position		
<u>Current assets:</u>		
Cash	\$ 812,576	\$ 1,372,614
Investments	1,790,349	-
<u>Receivables:</u>		
Stop loss recoverable	53,982	244,293
Accrued interest	1,134	-
Total current assets	2,658,041	1,616,907
<u>Current liabilities:</u>		
Accounts payable	225	275
Claims payable	358,706	565,087
Unearned revenue	478,749	471,671
Total current liabilities	837,680	1,037,033
<u>Net position:</u>		
Unrestricted	1,820,361	579,874
Total net position	\$ 1,820,361	\$ 579,874

Total assets of the Consortium totaled \$2,658,041 at December 31, 2015. The Consortium established premiums at a level to build reserves should claims payments fluctuate in a given year. The Consortium will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

Total liabilities of the Consortium totaled \$837,680 at December 31, 2015. Of this total, \$358,706 represents a liability for claims payable that is calculated by the Consortium's independent actuary, Findley Davies, and estimates the claims incurred and due at December 31, 2015. Unearned revenue at year end amounted to \$478,749, which represents premiums paid in advance by Consortium members. Accounts payable of \$225 represents amounts owed for professional fiscal services at year end.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

The table below shows the changes in net position for 2015 and 2014.

Change in Net Position

	<u>2015</u>	<u>2014</u>
<u>Operating revenues:</u>		
Member contributions	\$ 6,573,730	\$ 6,134,657
Stop loss reimbursement	<u>53,982</u>	<u>244,293</u>
Total operating revenue	<u>6,627,712</u>	<u>6,378,950</u>
<u>Operating expenses:</u>		
Claims	4,203,067	4,895,196
Administrative fees	416,376	396,224
Insurance premiums	628,641	471,598
Professional fees	57,193	20,885
Other fees	<u>73,628</u>	<u>15,315</u>
Total operating expenses	<u>5,378,905</u>	<u>5,799,218</u>
Operating income	<u>1,248,807</u>	<u>579,732</u>
<u>Nonoperating revenue (expense):</u>		
Interest income	1,331	142
Unrealized loss on investments	<u>(9,651)</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>(8,320)</u>	<u>142</u>
Change in net position	<u>1,240,487</u>	<u>579,874</u>
Net position at beginning of year	<u>579,874</u>	<u>-</u>
Net position at end of year	<u>\$ 1,820,361</u>	<u>\$ 579,874</u>

Sufficient member contributions are required to ensure that the Consortium is able to meet claims expenses. Stop loss reimbursement for 2015 amounted to \$53,982. Interest income amount to \$1,331 for the year. At December 31, 2015, the Consortium had \$1,790,349 in investments made up of negotiable certificates of deposit, commercial paper and a U.S. Government money market fund. The Consortium had \$9,651 in unrealized loss on these investments at year end.

The Consortium incurred expenditures for claims, administrative fees, insurance premiums for specific stop loss coverage, professional fees for attorney, provider and fiscal agent fees, and other fees for service charges and fraud insurance. The Consortium aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 63.42% of total 2015 operating revenues. The Consortium uses Anthem as their third party administrator.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Current Financial Related Activities

The Consortium began operations effective January 1, 2014. The Consortium is committed to providing its member school districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. The Consortium will continue to look at potential members who meet the established criteria. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The Consortium requires its member school districts to participate in the medical and prescription drug insurance program. The Consortium Board of Directors (the "Board") and its consultant, Preferred Benefits Services Agency, Inc., continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for member school districts. Establishing premiums that satisfy all claims, administrative fees, and other expenses of the Consortium, in addition to enhancing the net position is important for the short-term and long-term interests of the Consortium.

As claims costs for medical and prescription drug continue to escalate, the Board is faced with the task of attempting to balance a quality benefits offering within the financial constraints facing Ohio's public school districts. This is much the same as the dilemma facing American businesses today, and is complicated by the fact that each member school district in the Consortium must collectively bargain benefit levels with the respective employee unions. The challenge is set before the Consortium and its Board, and the future looks better from the collective, as opposed to individual, view of the five member school districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our citizens, taxpayers, member school districts and potential member school districts with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Eric Adelsberger, Treasurer, Logan County School Employee Consortium, 2280 State Route 540, Bellefontaine, Ohio 43311.

BASIC FINANCIAL STATEMENTS

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Current assets:	
Cash	\$ 812,576
Investments.	1,790,349
Receivables:	
Stop loss recoverable.	53,982
Accrued interest	<u>1,134</u>
Total current assets	<u>2,658,041</u>
 Current liabilities:	
Accounts payable	225
Claims payable	358,706
Unearned revenue.	<u>478,749</u>
Total current liabilities	<u>837,680</u>
 Net position:	
Unrestricted	<u>1,820,361</u>
Total net position	<u><u>\$ 1,820,361</u></u>

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

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating revenues:	
Member contributions	\$ 6,573,730
Stop loss reimbursement	<u>53,982</u>
Total operating revenues	<u>6,627,712</u>
Operating expenses:	
Claims.	4,203,067
Administrative fees.	416,376
Insurance premiums	628,641
Professional fees.	57,193
Other fees	<u>73,628</u>
Total operating expenses	<u>5,378,905</u>
Operating income	<u>1,248,807</u>
Nonoperating revenue/(expense):	
Investment income	1,331
Unrealized loss on investments.	<u>(9,651)</u>
Total nonoperating revenue/(expense).	<u>(8,320)</u>
Change in net position.	1,240,487
Net position at beginning of year	<u>579,874</u>
Net position at end of year	<u>\$ 1,820,361</u>

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

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Cash received from member contributions	\$ 6,580,808
Cash received from stop loss recoverable	244,293
Cash payments for claims	(4,409,448)
Cash payments for administrative fees	(416,376)
Cash payments for insurance premiums	(628,641)
Cash payments for professional fees	(57,243)
Cash payments for other fees	<u>(73,628)</u>
Net cash provided by operating activities	<u>1,239,765</u>
Cash flows from investing activities:	
Investments purchased	(1,800,000)
Interest income	<u>197</u>
Net cash used in investing activities	<u>(1,799,803)</u>
Net decrease in cash	(560,038)
Cash at beginning of year	<u>1,372,614</u>
Cash at end of year	<u><u>\$ 812,576</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,248,807
Changes in assets and liabilities:	
Decrease in stop loss recoverable	190,311
Decrease in accounts payable	(50)
Decrease in claims payable	(206,381)
Increase in unearned revenue	<u>7,078</u>
Net cash provided by operating activities	<u><u>\$ 1,239,765</u></u>

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

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Logan County School Employee Consortium (the "Consortium"), a Regional Council of Governments organized under Ohio Revised Code Chapter 167, was established on November 4, 2013, for the purpose of establishing and carrying out a cooperative medical and prescription drug program to participating member districts ("Members") within and near Logan County. The Council maintains Bylaws and each Member signs an Agreement.

The current five Members are Benjamin Logan Local School District, Indian Lake Local School District, Midwest Regional Educational Service Center, Ohio Hi-Point Joint Vocational School District, and Riverside Local School District. Each of the five participating Members is represented on the Board of Directors of the Consortium (the "Board") by their respective Superintendent, Treasurer, or a designee to represent the Member.

The Board is the legislative and managerial body of the Consortium. The Board elects at its annual meeting the officers who consist of a Chairperson, Vice-Chairperson, and Recording Secretary. The Board oversees and manages the operation of the insurance program, and other programs of the Consortium. The insurance program is currently the only program offered by the Consortium to its Members. The Board is authorized to employ on behalf of the Consortium such consultants, including a claims administrator and an actuary, as it deems necessary to assist in the management of the Consortium. The Board appoints a Fiscal Agent for the Consortium. The Board sets the annual Member contributions and other amounts to be paid by Members.

It is the expressed intention of the Consortium that the Agreement shall continue for an indefinite term, but it may be terminated by a two-thirds vote of the majority of the Members, as provided in Section 15 of the Consortium Agreement. Any Member wishing to withdraw from participation in the Consortium is permitted to do so only after providing written notice to the Fiscal Agent and will be effective not less than 180 days after notice is given by the Member. Specifics governing the withdrawal of a Member and run out of all claims is addressed in Section 11 of the Consortium Agreement.

The Consortium incurs premiums for specific stop loss insurance. The specific stop loss limit of \$125,000 represents the maximum amount of claims to be paid annually by the Consortium per participant.

The Consortium has contracted with a third-party administrator to act as its agent for the payment of plan benefits, selection of reinsurance coverage, and provision of certain administrative services, and is compensated for these services.

The Treasurer serves as Fiscal Agent of the Consortium and is responsible for administering the financial transactions of the Consortium. The Treasurer, a non-voting, ex-officio officer of the Board, receives, deposits, invests and disburses all funds, prepares all necessary fiscal reports for the Board, and undertakes all other financial transactions necessary to the work of the Consortium in accordance with the Bylaws of the Consortium. Eric Adelsberger serves as Treasurer of the Consortium.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

The Consortium's significant accounting policies are described below.

A. Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Consortium consists of all funds, departments, boards and agencies that are not legally separate from the Consortium. For the Consortium, this consists of a single enterprise fund.

Component units are legally separate organizations for which the Consortium is financially accountable. The Consortium is financially accountable for an organization if the Consortium appoints a voting majority of the organization's Governing Board and (1) the Consortium is able to significantly influence the programs or services performed or provided by the organization; or (2) the Consortium is legally entitled to or can otherwise access the organization's resources; or (3) the Consortium is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Consortium is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Consortium in that the Consortium approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Consortium has no component units.

B. Fund Accounting

The Consortium maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Consortium uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Consortium utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Consortium's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Consortium's operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from member contributions for insurance coverage and stop loss reimbursement. Operating expenses for the Consortium include the payment of claims, administrative fees, carrier stop loss premiums, professional fees and other fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

The Consortium's Fiscal Agent maintains the Consortium's financial activity, purchases specific investments and maintains a separate checking account for the Consortium.

During 2015, investments of the Consortium were limited to negotiable certificates of deposit, commercial paper and a U.S. Government money market fund. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

For purposes of the statement of net position and the statement of cash flows, investments of the Consortium with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. In addition, the Consortium's policy is to treat all of its short-term, highly liquid investments (such as U.S. Government money market funds) as investments and not as cash equivalents.

An analysis of the Consortium's cash and investments at year-end is provided in Note 3.

E. Budgetary Process

The member school districts of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

F. Unearned Revenue

Unearned revenues represent premiums paid in advance by Consortium members at December 31, 2015. The premiums will be recognized as revenue in the month to which they pertain.

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Consortium had no restricted net position at December 31, 2015.

H. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 3 - CASH AND INVESTMENTS

In accordance with the Constitution of the Consortium, the investment of the Consortium funds shall be subject to the laws of the State of Ohio concerning the investment and management of public funds, particularly Chapter 135 of the Ohio Revised Code, and are the responsibility of the fiscal agent. The following disclosures relate to the deposits and investments of the Consortium.

A. Deposits with Financial Institutions

At December 31, 2015, the carrying amount of all Consortium deposits was \$812,576. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2015, \$661,524 of the Consortium’s bank balance of \$911,524 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Consortium’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Consortium. The Consortium has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Consortium to a successful claim by the FDIC.

B. Investments

As of December 31, 2015, the Consortium had the following investments and maturities:

Investment type	Fair value	Investment maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater Than 24 months
Negotiable CDs	\$ 1,517,239	\$ -	\$ 79,784	\$ 199,168	\$ 198,894	\$ 1,039,393
Commercial paper	268,704	134,544	134,160	-	-	-
U.S. Government money market fund	4,406	4,406	-	-	-	-
	<u>\$ 1,790,349</u>	<u>\$ 138,950</u>	<u>\$ 213,944</u>	<u>\$ 199,168</u>	<u>\$ 198,894</u>	<u>\$ 1,039,393</u>

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: U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor’s. The Consortium’s investments in negotiable CDs and commercial paper were not rated. The Consortium’s investment policy does not specifically address credit risk beyond requiring the Consortium to only invest in securities authorized by State statute.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 3 - CASH AND INVESTMENTS - (Continued)

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 commercial paper is exposed to custodial credit risk in that it is uninsured, unregistered and held by the counterparty's trust department or agent but not in the Consortium's name. The Consortium's investments in negotiable CDs are insured by the FDIC. 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 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, 2015:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CDs	\$ 1,517,239	84.75
Commercial paper	268,704	15.01
U.S. Government money market fund	<u>4,406</u>	<u>0.24</u>
	<u>\$ 1,790,349</u>	<u>100.00</u>

NOTE 4 - RECEIVABLES

Receivables at December 31, 2015, consisted of stop loss recoverable of \$53,982 and accrued interest of \$1,134. The receivables are considered collectible in full and are expected to be collected in the subsequent year.

NOTE 5 - RISK MANAGEMENT

The Consortium is a jointly governed organization which acts as a governmental risk pool for medical and dental coverage for its five Members. The risk of loss for loss transfers from the Member to the Consortium upon payment of the monthly premium.

The Consortium employs the services of an outside consultant, Preferred Benefits Services Agency, Inc., to assist them in administering the Consortium. The Consortium also uses Anthem as their third party administrator. Anthem administers the medical and prescription drug benefits.

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Consortium or any property of the Consortium. The rights and interest of employees and persons claiming by or through employees shall be limited receipt benefits offered by or through the Consortium in accordance with the Consortium Agreement. The Consortium purchases or otherwise provides for the benefit of itself, the Board and/or the Fiscal Agent such liability insurance with such limits of coverage as approved by the Board. The aggregate claims liability of the Consortium shall not exceed one-hundred-twenty percent (125%) of expected claims. Any Member which withdraws from the Consortium pursuant to the Consortium Agreement has no claim to the Consortium's assets.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 5 - RISK MANAGEMENT - (Continued)

It is not necessary for each Member to hold a reserve for Incurred But Not Reported (IBNR) claims. The IBNR information is presented by the Consortium as required by GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", and is not available on a District-by-District basis.

The Consortium is self-insured for Member employee health insurance claims, but maintains stop gap loss insurance with Anthem for \$125,000 on an individual basis. The Consortium pays covered claims to service providers and recovers these costs from premium charges to Members based on calculations provided with the Consortium's consultant Preferred Benefits Services Agency, Inc. in conjunction with Anthem which is the third party administrator.

The claims liability of \$358,706 reported at December 31, 2015, is based on an actuarial estimate provided by the Consortium's independent actuary, Findley Davies, and the requirements of GASB Statement No. 10 as amended by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Claims payable at beginning of year	\$ 565,087	\$ -
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	4,406,667	4,895,196
Decrease in claims expenses for insured events of the prior years	(203,600)	-
Total claims expenses	4,203,067	4,895,196
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	(3,803,667)	(4,330,109)
Claims expenses paid attributable to insured events of prior years	(605,781)	-
Total claims payments	(4,409,448)	(4,330,109)
Claims payable at end of year	\$ 358,706	\$ 565,087

NOTE 6 - LITIGATION

The Consortium is not party to any litigation.

NOTE 7 - TAX STATUS

The trust established under the Consortium to hold plan assets is qualified pursuant to the appropriate section of the Internal Revenue Code as a tax exempt organization. The Consortium has obtained a favorable determination from the Internal Revenue Service and the Consortium believes that the plan continues to qualify and operate as designated.

REQUIRED SUPPLEMENTARY INFORMATION

LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO

LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Consortium's earned revenue 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 fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net 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 accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table in future years will show data for successive accident years. The Consortium's first year of operations began January 1, 2014.

**LOGAN COUNTY SCHOOL EMPLOYEE CONSORTIUM
LOGAN COUNTY, OHIO**

LOSS DEVELOPMENT INFORMATION (CONTINUED)

	<u>2014</u>	<u>2015</u>
1. Premiums and investment income	\$ 6,134,799	\$ 6,575,061
2. Unallocated expenses	904,022	1,185,489
3. Estimated losses incurred and expense, end of year	4,895,196	4,406,667
4. Paid, cumulative as of:		
End of accident year	4,330,109	3,803,667
One year later	4,935,890	
5. Re-estimated incurred losses and expense:		
End of accident year	4,895,196	4,406,667
One year later	4,691,596	
6. Decrease in estimated incurred losses and expenses from end of accident year	(203,600)	-



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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***

Logan County School Employee Consortium
Logan County
4740 County Rd. 26
Bellefontaine, Ohio 43311

To the Board of Trustees:

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 Logan County School Employee Consortium, Logan County, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Logan County School Employee Consortium's basic financial statements and have issued our report thereon dated April 25, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Logan County School Employee 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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Logan County School Employee 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 Logan County School Employee 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 Trustees
Logan County School Employee Consortium

Compliance and Other Matters

As part of reasonably assuring whether the Logan County School Employee 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 Logan County School Employee Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Logan County School Employee Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
April 25, 2016



Dave Yost • Auditor of State

LOGAN COUNTY SCHOOLS BENEFIT PLAN ASSOCIATION

LOGAN 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 21, 2016