

Van Wert Area Schools Insurance Group  
Van Wert County, Ohio

*Audited Financial Statements*

For the Year Ended  
December 31, 2018





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Board of Trustees  
Van Wert Area Schools Insurance Group  
205 W. Crawford Street  
Van Wert, Ohio 45891

We have reviewed the *Independent Auditor's Report* of the Van Wert Area Schools Insurance Group, Van Wert County, prepared by Rea & Associates, Inc., for the audit period January 1, 2018 through December 31, 2018. 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 Van Wert Area Schools Insurance Group is responsible for compliance with these laws and regulations.

Keith Faber  
Auditor of State  
Columbus, Ohio

May 21, 2019

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**Van Wert Area Schools Insurance Group**  
Van Wert County, Ohio

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April 23, 2019

To the Board of Trustees  
Van Wert Area Schools Insurance Group  
Van Wert County, Ohio  
205 West Crawford Street  
Van Wert, OH 45891

## **Independent Auditor's Report**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the Group), as of and for the year ended December 31, 2018, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 Group'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 Group's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Basis for Adverse Opinion***

As described in Note 1 of the financial statements, the Group prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the *Basis of Adverse Opinion* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Van Wert Area Schools Insurance Group, as of December 31, 2018, and the respective changes in financial position or cash flows thereof for the year then ended.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2019, on our consideration of the Group'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 Group's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio



**Van Wert Area Schools Insurance Group**

**Van Wert County, Ohio**

*Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances*

*All Proprietary and Fiduciary Fund Types*

*For the Year Ended December 31, 2018*

	<u>Proprietary</u>	<u>Fiduciary</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
<b>Operating Cash Receipts</b>			
Charges for Services	\$ 8,235,803	\$ 0	\$ 8,235,803
Flexible Spending Plan Contributions	0	1,723	1,723
Other	27,139	0	27,139
<i>Total Operating Cash Receipts</i>	<u>8,262,942</u>	<u>1,723</u>	<u>8,264,665</u>
<b>Operating Cash Disbursements</b>			
<i>Payments to Third-party Administrator</i>			
Claims Expense	6,029,989	0	6,029,989
Administration Fees	241,212	0	241,212
Stop Loss Premiums	785,858	0	785,858
Life Insurance Premiums	66,865	0	66,865
Professional Fees	84,202	0	84,202
Flexible Spending Plan Claims	0	8,008	8,008
Other	70,001	0	70,001
<i>Total Operating Cash Disbursements</i>	<u>7,278,127</u>	<u>8,008</u>	<u>7,286,135</u>
<i>Operating Income (Loss)</i>	<u>984,815</u>	<u>(6,285)</u>	<u>978,530</u>
<b>Non-Operating Cash Receipts</b>			
Investment Income	41,173	0	41,173
<i>Net Change in Fund Cash Balances</i>	1,025,988	(6,285)	1,019,703
<i>Fund Cash Balances, January 1</i>	<u>2,572,172</u>	<u>6,285</u>	<u>2,578,457</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 3,598,160</u>	<u>\$ 0</u>	<u>\$ 3,598,160</u>

See accompanying notes to basic financial statements.

## Van Wert Area Schools Insurance Group

Van Wert County, Ohio

*Notes to the Financial Statements*

*For the Year Ended December 31, 2018*

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### **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***A. Reporting Entity***

The Van Wert Area Schools Insurance Group (the Group) is a joint self-insurance pool established pursuant to the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Ohio Revised Code Chapter 167. The Group is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees and covered dependents in accordance with the Group's agreement and bylaws. In addition to the self-insurance pool, the Group provides risk management service and established loss prevention procedures and programs. The members of the Group include the following Boards of Education within Van Wert County, State of Ohio: Van Wert City, Crestview Local, Lincolnview Local and Vantage Career Center, Northwest Ohio Area Computer Services Cooperative and Western Buckeye Educational Service Center, which serves Van Wert and Paulding County Boards of Education.

The Board of Trustees is the legislative and managerial body of the Group. This body consists of the representatives of the members based on a proportional numerical representation outlined in the Group's by-laws. Officers of the Group are elected from the Board of Trustees for a one year term.

Member premiums are calculated to annually produce a sufficient sum of money within the self-insurance pool adequate to fund administrative expenses of the Group and to create adequate reserves for claims and allocated loss adjustment expenses.

Under the terms of membership, should annual member premiums not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Trustees can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Group and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

The Group uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured. The Group is contingently liable with respect to certain loss coverage, which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

Members may withdraw from the Group or from any particular benefits program with at least 12 months notice. No members withdrew from the Group during 2018.

All administrative costs and expenses incurred for the maintenance of the Group are paid through the benefit pool account balances through December 31, 2018. Management believes these financial statements present all activities for which the Group is financially accountable.

## **Van Wert Area Schools Insurance Group**

### **Van Wert County, Ohio**

#### *Notes to the Financial Statements*

*For the Year Ended December 31, 2018*

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#### ***B. Basis of Accounting***

Although required by Ohio Administrative Code 117-02-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the Group has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred.

#### ***C. Fund Accounting***

The Group uses fund accounting to segregate cash and investments that are restricted as to use. The Group classifies its funds into the following types:

##### *Proprietary Fund*

The Group's only proprietary fund is an enterprise fund. The Group uses an enterprise fund to account for operations 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges.

##### *Fiduciary Fund*

The Group's only fiduciary fund is an agency fund. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Group disburses these funds as directed by the individual, organization or other government. The Group's agency fund accounts for employee flexible spending plans. During 2018, the monetary controls of the employee flexible spending plan was transferred to American Fidelity.

#### ***D. Budgetary Process***

The Group is not required to follow the budgetary process and has decided not to adopt a formal budget annually as part of their amended agreement and bylaws.

#### ***E. Cash and Investments***

Investments are reported as assets and are carried at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

The Group values demand deposits and federal securities at cost. Money market mutual funds are recorded at share values the mutual funds report.

## Van Wert Area Schools Insurance Group

### Van Wert County, Ohio

#### Notes to the Financial Statements

For the Year Ended December 31, 2018

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During the year 2018, the Group invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Group measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

#### NOTE 2 – CASH AND INVESTMENTS

The Van Wert City School District (the School) is the fiscal agent for the Group. The School maintains specific deposits for the Group. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of the Group's cash and investments at December 31, 2018 was as follows:

Demand Deposits	\$ 638,590
Federal Farm Credit Bank	48,487
Federal Home Loan Bank	194,882
Federal National Mortgage Association Notes	198,394
Federal Home Loan Mortgage Corp	256,673
STAR Ohio	2,238,469
First Financial (Sweep)	<u>22,665</u>
Total Deposits and Investments	<u><u>\$ 3,598,160</u></u>

*Deposits:* Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Group.

*Investments:* The Federal Reserve holds the Group's U.S. Treasury Notes in book entry form by, in the name of the Group's financial institution. The financial institution maintains records identifying the Group as owner of these securities. A financial institution's trust department holds the Group's equity securities in book entry form in the Group's name.

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

## Van Wert Area Schools Insurance Group

Van Wert County, Ohio

Notes to the Financial Statements

For the Year Ended December 31, 2018

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### NOTE 3 - RISK MANAGEMENT

The Group has contracted with third-party administrators, Aetna and Anthem, to process and pay health benefit claims incurred by its members. The members contribute monthly premiums into the benefit pool fund of the Group. The treasurer approves payments to the third-party administrators for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Group members. Besides the standard monthly contributions, the Group may extend an assessment to each member.

Members that withdraw from the Group are obligated for payment of any negative balance in their account and the remaining claims of any of its eligible members and dependents are the responsibility of each individual member upon withdrawal from the Group.

### NOTE 4 - CLAIMS LIABILITY

The Group receives an annual actuarial report that estimates an amount for the runoff liability for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the period ended December 31, 2018. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at December 31, 2018:

Pooled Cash	\$ 3,598,160
IBNR Actuarial Liability	<u>800,000</u>
Excess Funds	<u><u>\$ 2,798,160</u></u>

### NOTE 5 - PROFESSIONAL FEES

The Group is contracted with Huntington Insurance, Inc. to provide various management, underwriting, claim adjustments and loss control services. Huntington Insurance's fees for the year ended December 31, 2018 were \$54,300. The annual fee paid by the Group to its fiscal agent, Van Wert City School District, who is a member of the Group, was \$14,000.

### NOTE 6 - COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Group to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For 2018, the Group prepared financial statements that report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.38, the Group may be fined and subject to various other administrative remedies for its failure to file the required financial report.

April 23, 2019

To the Board of Trustees  
Van Wert Area Schools Insurance Group  
Van Wert County, Ohio  
205 W Crawford St  
Van Wert, Ohio 45891

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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 Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the Group), as of and for the year ended December 31, 2018, and the related notes to the financial statements and have issued our report thereon dated April 23, 2019, wherein we issued an adverse opinion on the Group's financial statements because the Group did not follow accounting principles generally accepted in the United States of America as required by Ohio Administrative Code Section 117-2-03(B).

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Group'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 Group'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 Group'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.

***Compliance and Other Matters***

As part of reasonably assuring whether the Group'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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

***Group's Response to the Finding***

The Group's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Group's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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 Group's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Group's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Rea & Associates, Inc.*

Medina, Ohio

**Van Wert Area Schools Insurance Group**  
**Van Wert County, Ohio**  
*Schedule of Findings*  
*December 31, 2018*

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number: 2018-001 – Material Noncompliance**

**Criteria:** Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38.

**Condition:** The Group did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

**Cause:** For fiscal year 2018, the Group prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities. The Group was required to prepare its annual report in accordance with generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, Net Position/Fund Balance, and disclosures that, while material, cannot be determined at this time.

**Effect:** Pursuant to Ohio Rev. Code Section 117.38, the Group may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**Recommendation:** We recommend the Insurance Group prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

**Management's Response:** The Group does not intend to develop a Corrective Action Plan or to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.



**Van Wert Area Schools Insurance Group**  
**Van Wert County, Ohio**  
*Summary Schedule of Prior Audit Findings*  
*December 31, 2018*

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	Finding Summary	Status	Additional Information
2017-001	Noncompliance with ORC 117.38 and OAC117-2-03(B)	Not Corrected	There is no intention of the Group to report the financial statements in accordance with generally accepted accounting principles (GAAP) due to the cost saving benefits of reporting on a regulatory basis.

Note: The Group does not have their own letterhead.

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# OHIO AUDITOR OF STATE KEITH FABER



**VAN WERT AREA SCHOOLS INSURANCE GROUP**

**VAN WERT 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 4, 2019**