



Rea & associates *a brighter way*

Van Wert Area Schools Insurance Group Van Wert County, Ohio

Audited Financial Statements

For the Fifteen Month Period Ended
December 31, 2016



Dave Yost • Auditor of State

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 October 1, 2015 through December 31, 2016. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 23, 2017

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

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March 10, 2017

To the Board of Trustees
Van Wert Area Schools Insurance Group
Van Wert County
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 Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the Group), as of and for the fifteen month period ended December 31, 2016, 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 matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Group as of and for the fifteen month period ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Group changed its fiscal year end from September to December. As a result the financial statements are presented for the period October 1, 2015 through December 31, 2016. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, 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 Period October 1, 2015 through December 31, 2016*

	<u>Proprietary</u>	<u>Fiduciary</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts			
Charges for Services	\$ 8,641,203	\$ 0	\$ 8,641,203
Flexible Spending Plan Contributions	0	84,541	84,541
Other	1,833	0	1,833
<i>Total Operating Cash Receipts</i>	<u>8,643,036</u>	<u>84,541</u>	<u>8,727,577</u>
Operating Cash Disbursements			
<i>Payments to Third-party Administrator</i>			
Claims Expense	8,262,193	0	8,262,193
Administration Fees	261,664	0	261,664
Stop Loss Premiums	844,294	0	844,294
Life Insurance Premiums	77,864	0	77,864
Professional Fees	80,719	0	80,719
Flexible Spending Plan Claims	0	94,191	94,191
Miscellaneous	103,262	0	103,262
<i>Total Operating Cash Disbursements</i>	<u>9,629,996</u>	<u>94,191</u>	<u>9,724,187</u>
<i>Operating Income (Loss)</i>	<u>(986,960)</u>	<u>(9,650)</u>	<u>(996,610)</u>
Non-Operating Cash Receipts			
Investment Income	<u>15,235</u>	<u>0</u>	<u>15,235</u>
<i>Net Change in Fund Cash Balances</i>	(971,725)	(9,650)	(981,375)
<i>Fund Cash Balances, October 1</i>	<u>2,599,298</u>	<u>11,005</u>	<u>2,610,303</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 1,627,573</u>	<u>\$ 1,355</u>	<u>\$ 1,628,928</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 Period October 1, 2015 through December 31, 2016

NOTE 1 - 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 the period from October 1, 2015 through December 31, 2016.

All administrative costs and expenses incurred for the maintenance of the Group are paid through the benefit pool account balances through December 31, 2016. Management believes these financial statements present all activities for which the Group is financially accountable.

Effective December 2015, the Board of Trustees voted to change the fiscal year from September to December. These statements represent the fifteen month period of October 1, 2015 to December 31, 2016.

Van Wert Area Schools Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Period October 1, 2015 through December 31, 2016

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.

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.

Van Wert Area Schools Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Period October 1, 2015 through December 31, 2016

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, 2016 was as follows:

Demand Deposits	\$ 916,719
Federal Home Loan Bank Notes	245,902
Federal National Mortgage Association Notes	201,246
Federal Home Loan Mortgage Corp	198,449
STAR Ohio	2,991
U.S. Government Select Money Market Fund	<u>63,621</u>
Total Deposits and Investments	<u>\$ 1,628,928</u>

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

Investments: 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 and the money market fund are not evidenced by securities that exist in physical or book-entry form.

NOTE 3 - RISK MANAGEMENT

The Group has contracted with a third-party administrator, Aetna, 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 administrator 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.

Van Wert Area Schools Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Period October 1, 2015 through December 31, 2016

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, 2016. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at December 31, 2016:

Pooled Cash	\$ 1,627,573
IBNR Actuarial Liability	<u>900,000</u>
Excess Funds	<u><u>\$ 727,573</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 period from October 1, 2015 through December 31, 2016 were \$64,875. The annual fee paid by the Group to its fiscal agent, Van Wert City School District, who is a member of the Group, is \$15,000.

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 the fiscal year 2016, 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.

March 10, 2017

To the Board of Trustees
Van Wert Area Schools Insurance Group
Van Wert County
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 Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the Group), as of and for the fifteen month period ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2017, wherein we issued an adverse opinion on the Group's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America. In addition, we noted the Group changed its fiscal year end from September to December, thus reporting the current financial statements with a fifteen month period of October 1, 2015 through December 31, 2016.

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 2016-001.

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 audit the Group's response 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 communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

Van Wert Area Schools Insurance Group
Van Wert County, Ohio
Schedule of Findings
December 31, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2016-001 – 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. This law was revised in 2015 to include insurance plans starting with fiscal year 2016.

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 2016, 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, liabilities, deferred inflows, fund equities, 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 Group review the revised standards. We also 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.

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Dave Yost • Auditor of State

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 6, 2017**