



Rea & associates a *brighter* way

Van Wert Area Schools Insurance Group Van Wert County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
September 30, 2015



Dave Yost • Auditor of State

Board of Trustees
Van Wert Area Schools Insurance Group
205 W. Crawford St
Van Wert, OH 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, 2014 through September 30, 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 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

January 25, 2016

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

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December 16, 2015

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 the cash balances, receipts and disbursements by fund type, and related notes of Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the Group) as of and for the year ended September 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Group prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Group does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* 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 Group as of September 30, 2015, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Van Wert Area Schools Insurance Group, Van Wert, Ohio as of September 30, 2015, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, 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 School 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 Fiscal Year Ended September 30, 2015*

	<u>Proprietary</u>	<u>Fiduciary</u>	<u>Totals</u>
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 7,104,122	\$ 0	\$ 7,104,122
Flexible Spending Plan Contributions	0	95,424	95,424
Other	25,000	0	25,000
<i>Total Operating Cash Receipts</i>	<u>7,129,122</u>	<u>95,424</u>	<u>7,224,546</u>
Operating Cash Disbursements			
<i>Payments to Third-party Administrator</i>			
Claims Expense	6,552,024	0	6,552,024
Administration Fees	221,328	0	221,328
Stop Loss Premiums	668,536	0	668,536
Life Insurance Premiums	58,462	0	58,462
Professional Fees	66,648	0	66,648
Flexible Spending Plan Claims	0	93,946	93,946
Miscellaneous	97,976	0	97,976
<i>Total Operating Cash Disbursements</i>	<u>7,664,974</u>	<u>93,946</u>	<u>7,758,920</u>
<i>Operating Income (Loss)</i>	<u>(535,852)</u>	<u>1,478</u>	<u>(534,374)</u>
Non-Operating Cash Receipts			
Investment Income	<u>23,958</u>	<u>0</u>	<u>23,958</u>
<i>Net Change in Fund Cash Balances</i>	(511,894)	1,478	(510,416)
<i>Fund Cash Balances, October 1</i>	<u>3,111,192</u>	<u>9,527</u>	<u>3,120,719</u>
<i>Fund Cash Balances, September 30</i>	<u>\$ 2,599,298</u>	<u>\$ 11,005</u>	<u>\$ 2,610,303</u>

See accompanying notes to the financial statements.

Van Wert Area School Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Van Wert Area School 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, 2014 through September 30, 2015.

All administrative costs and expenses incurred for the maintenance of the Group are paid through the benefit pool account balances through September 30, 2015. Management believes these financial statements present all activities for which the Group is financially accountable.

Van Wert Area School Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2015

B. Basis of Accounting

The Group's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Group's financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

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:

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 School Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2015

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 September 30, 2015 was as follows:

	2015
Demand Deposits	\$ 574,520
Certificates of Deposit	200,000
Federal Home Loan Bank Notes	250,059
Federal National Mortgage Association Notes	901,978
Federal Home Loan Mortgage Corp	199,316
STAR Ohio	2,974
U.S. Government Select Money Market Fund	481,456
Total Deposits and Investments	\$ 2,610,303

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

Effective October 1, 2014 the Group has contracted with a third-party administrator, Aetna to process and pay health benefit claims incurred by its members. Prior to October 1, 2014 the Group had contracted with Anthem Insurance Companies, Inc. 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 School Insurance Group
Van Wert County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2015

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 year ended September 30, 2015. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at September 30, 2015:

	<u>2015</u>
Pooled Cash	\$ 2,599,298
IBNR Actuarial Liability	<u>900,000</u>
Excess Funds	<u>\$ 1,699,298</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, 2014 through September 30, 2015 were \$51,900. The annual fee paid by the Group to its fiscal agent, Van Wert City School District, who is a member of the Group, is \$12,000.

December 16, 2015

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 the cash balances, receipts, and disbursements by fund type of the Van Wert Area Schools Insurance Group, Van Wert County, Ohio (the “Group”) as of and for the year ended September 30, 2015, and the related notes to the financial statements and have issued our report thereon dated December 16, 2015, wherein we noted the Group followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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 opinions 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 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 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.

Rea & Associates, Inc.

Medina, Ohio



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
FEBRUARY 4, 2016**