



Dave Yost • Auditor of State

**SOUTHWEST OHIO ORGANIZATION OF SCHOOL HEALTH
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southwest Ohio Organization of School Health
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Southwest Ohio Organization of School Health, Hamilton County, Ohio (the Consortium) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 the cash accounting basis Note 1 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 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 Consortium's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Southwest Ohio Organization of School Health, Hamilton County, Ohio, as of June 30, 2017, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 1.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Consortium to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 1 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. 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 January 12, 2018, on our consideration of the 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 Consortium's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 12, 2018

**Southwest Ohio Organization of School Health
Statement of Net Position - Cash Basis
June 30, 2017**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$ 21,189,035</u>
Total Assets	<u>21,189,035</u>
Net Position:	
Unrestricted	<u>21,189,035</u>
Total Net Position	<u>\$ 21,189,035</u>

See accompanying notes to the basic financial statements.

**Southwest Ohio Organization of School Health
Statement of Cash Receipts, Cash Disbursements and Changes in Net Position - Cash Basis
For the Year Ended June 30, 2017**

	<u>2017</u>
Operating Cash Receipts:	
Contributions from member districts	<u>\$ 55,545,529</u>
Total operating cash receipts	<u>55,545,529</u>
Operating Cash Disbursements:	
Claim settlements	55,021,725
Professional/Legal Services	11,071
Miscellaneous	<u>1,010,918</u>
Total operating cash disbursements	<u>56,043,714</u>
Operating cash receipts over (under) operating cash disbursements	(498,185)
Non-Operating Cash Receipts:	
Interest earnings	<u>186,960</u>
Receipts over (under) disbursements	(311,225)
Net Position:	
Beginning of year	<u>21,500,260</u>
End of year	<u>\$ 21,189,035</u>

See accompanying notes to the basic financial statements.

**Southwest Ohio Organization of School Health
Notes to the Financial Statements
For the Year Ended June 30, 2017**

Note 1 - Summary of Significant Accounting Policies

Description of the Consortium

The Southwest Ohio Organization of School Health (the Consortium), organized under Ohio Revised Code Chapter 167, was established on January 1, 2012, for the purpose of establishing and carrying out a cooperative health program. The Consortium is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws of the Consortium.

The Southwest Ohio Organization of School Health Consortium is a legally separate consortium. The Consortium is a jointly governed organization with member governmental entities. The Consortium was formed to maximize benefits and/or reduce costs of medical, prescription drug, dental, and/or other group insurance coverage for member employees and the eligible dependents and designated beneficiaries of member employees. The governing board consists of the treasurers and human resource directors, (for those districts with two votes) who have been designated by the superintendents per the by-laws. As of June 30, 2017, there were 8 member Districts.

The Consortium utilizes the Hamilton County Educational Service Center (the Service Center) as its fiscal agent. The Treasurer of the fiscal agent maintains the Consortium Fund as a custodial fund and separate and apart from all other funds of the fiscal agent.

The Consortium was fully insured from its inception date on January 1, 2012 through December 31, 2014. The Consortium became self insured on January 1, 2015, and claims are administered by a third party administrator. The Consortium's third party administrator for the medical insurance plan is Anthem. Claims are made to the third party administrator by covered individuals. The third party administrator processes the claims, approve or deny, and make payments to medical and dental providers. The third party administrator submits a list of claims paid to the Consortium, who in turn submits payments to the third party administrator.

Membership in the Consortium is dependent upon each member enrolling in all benefit programs offered by or through the Consortium. If a member district withdraws from the Consortium, it would not receive a refund of premiums paid to the Consortium and it may not rejoin for a period of three years. New schools district may become members of the Consortium only upon approval by the Board of Directors of the Consortium.

Basis of Accounting

These financial statements are prepared using the cash basis of accounting, which is not in compliance with the Ohio Administrative Code 117-2-03(B). OAC 117-2-03(B) requires annual financial reports be prepared using generally accepted accounting principles. Receipts are recorded in the Consortium's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**Southwest Ohio Organization of School Health
Notes to the Financial Statements
For the Year Ended June 30, 2017**

Basis of Presentation

The basic financial statements consist of a statement of net position and a statement of cash receipts, cash disbursements and changes in net position. The Consortium reports using a single enterprise presentation for its financial statements. Enterprise reporting focuses on the determination of operating income, changes in net position and financial position.

Cash and Investments

The Consortium's cash is held and invested by the Service Center, who acts as custodian for Consortium monies. The Service Center maintains the Consortium Fund as an agency fund of the Service Center. During fiscal year 2017, the Consortium's investments were limited to U.S. Agency securities, negotiable CD's, commercial paper, and money market accounts.

Note 2 – Cash and Investments

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of the deposits and investments as of June 30, 2017 was as follows:

	<u>2017</u>
Demand deposits	<u>\$ 2,485,398</u>
U.S. agency securities	7,744,945
Negotiable CD's	7,000,000
Commercial Paper	2,775,809
Money market accounts	<u>1,182,883</u>
Total Investments	<u>18,703,637</u>
Total Deposits and Investments	<u><u>\$ 21,189,035</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Investments: The Consortium invests in U.S. Agency Securities, negotiable CD's, commercial paper, and a money market fund. The Federal Reserve holds the Consortium's U.S. Agency Securities in book-entry form in the name of the Consortium's financial institution. The financial institution maintains records identifying the Consortium as owner of these securities.

Note 3 – Risk Management

The Consortium was fully commercially insured from its inception date on January 1, 2012 through December 31, 2014. The Consortium became self insured for medical and prescription drug insurance on January 1, 2015. Membership rates are charged based on claims approved by the third party administrators (Anthem). Member districts may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. The Consortium will pay the run out of all benefit claims of the withdrawing member. If the withdrawing member withdraws upon

Southwest Ohio Organization of School Health
Notes to the Financial Statements
For the Year Ended June 30, 2017

expiration of their term (two year initial term and one year thereafter) with 180 days written notice, they may also be eligible for return of reserve of the Cooperative Fund if there any funds remaining after the payment of claims and administration. Any member withdrawing outside of the terms of notice rules will pay a two month premium fee to cover costs of off-cycle withdrawal and would only receive return of reserve of the Cooperative Fund by Board vote. Upon automatic withdrawal for non-payment by any member district, the Consortium will pay the run out of all benefit claims provided the Consortium has received all outstanding and unpaid premiums.

Note 4 – Loss Reserve

Since the medical and prescription drug programs are self insured, the loss reserve must be equal to or less than the actual fund balance. The fund balance as of June 30, 2017 was \$21,189,035.

The loss reserve, certified by a statement of actuarial opinion provided by an actuary who is a member of the American Academy of Actuaries, for the fiscal year ended June 30, 2017 was \$4,794,700.

The medical and prescription drug programs meet the loss reserve.

Note 5 – Subsequent Event

Due to the surplus of equity in the investment accounts, the Board of Trustees voted to give each of the schools a "holiday" in December, 2017. This holiday means that the individual schools will not be billed in November for the December payment. Investments in excess of \$4 million were sold to cover the December payment.

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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*

Southwest Ohio Organization of School Health
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the Southwest Ohio Organization of School Health, Hamilton County, Ohio (the Consortium), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated January 12, 2018, wherein we noted the Consortium uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Consortium's Response to Findings

The Consortium's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Consortium'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 Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 12, 2018

**SOUTHWEST OHIO ORGANIZATION OF SCHOOL HEALTH
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Noncompliance

Ohio Rev. Code § 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 on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires government insurance pools to file annual financial reports pursuant to generally accepted accounting principles. The Consortium is a government insurance pool; however, the Consortium prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis of accounting, receipts are recorded in the Consortium's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred. As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Pursuant to Ohio Rev. Code § 117.38, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report. The Consortium should take the necessary steps to ensure that the annual financial report is prepared and filed on a generally accepted accounting principles basis.

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principal (GAAP) is more cost efficient and does not present a higher risk for the Consortium's assets.

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SOUTHWEST OHIO ORGANIZATION OF SCHOOL HEALTH (SWOOSH)

HAMILTON 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 1, 2018**