

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
*(Audited)***

*FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2010*

RICHARD MCINTOSH, TREASURER



Dave Yost • Auditor of State

Board of Directors
Suburban Health Consortium
6579 Royalton Road
North Royalton, Ohio 44133

We have reviewed the *Independent Auditor's Report* of the Suburban Health Consortium, Cuyahoga County, prepared by Julian & Grube, Inc., for the audit period October 1, 2009 through September 30, 2010. 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 Suburban Health 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

April 7, 2011

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
Suburban Health Consortium
6579 Royalton Road
North Royalton, Ohio 44133

We have audited the accompanying basic financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, as of and for the fiscal year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Suburban Health Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Suburban Health Consortium, as of September 30, 2010, and the changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2011, on our consideration of the Suburban Health Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* and *Nine-Year Loss Development Information* on pages 3 through 7 and 20 through 22, respectively, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Julian & Grube, Inc.
March 18, 2011

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

The management's discussion and analysis of the Suburban Health Consortium's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year ended September 30, 2010. 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 fiscal year 2010 are as follows:

- In total, net assets were \$11,736,247 at September 30, 2010. This represents a decrease of \$4,485,164, or 27.65%, from September 30, 2009.
- The Consortium had operating revenues of \$56,766,312 and operating expenses of \$61,399,962 for fiscal year 2010. The Consortium had \$148,486 in interest revenue which includes interest earned plus any changes in the fair value of the Consortium's investments. Operating loss and the change in net assets for the fiscal year was \$4,633,650 and \$(4,485,164), respectively.

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 assets* and *statement of revenues, expenses, and changes in net assets* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations.

Reporting the Consortium Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2010?" The statement of net assets and the statement of revenues, expenses, and changes in net assets 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 fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the Consortium's *net assets* and changes in those assets. This change in net assets 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 assets and statement of revenues, expenses, and changes in net assets can be found on pages 8-9 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 10 of this report.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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 11-19 of this report.

Required Supplementary Information

Nine years of loss development information can be found on pages 20-22 of this report.

Net Assets and Changes in Net Assets

The table below provides a summary of the Consortium's net assets for 2010 and 2009.

	2010	2009
<u>Assets</u>		
Cash and cash equivalents with fiscal agent	\$ 5,498,181	\$ 21,277,854
Investments with fiscal agent	11,891,413	-
Receivables (net of allowance for uncollectibles):		
Accrued interest	26,411	52,557
Total assets	17,416,005	21,330,411
<u>Liabilities:</u>		
Accounts payable	8,758	-
Claims payable	5,671,000	5,109,000
Total liabilities	5,679,758	5,109,000
<u>Net Assets:</u>		
Unrestricted	\$ 11,736,247	\$ 16,221,411

Net assets decreased by \$4,485,164, or 27.65%, from September 30, 2009 primarily due to a 16% increase in claims expense in 2010 versus 2009 compared to only a 1.70% increase in participant contribution revenue. In prior years, 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.

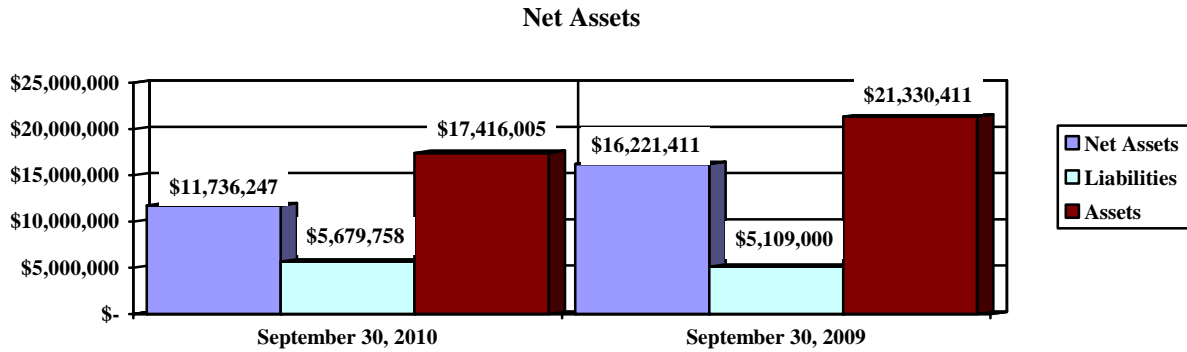
Total assets of the Consortium decreased \$3,914,406, or 18.35%, from September 30, 2009 primarily in the area of cash and investments held by the fiscal agent. Cash and investments decreased as the Consortium did not have enough participant contribution revenue in the current year to cover the current years claims payments.

Total liabilities of the Consortium increased \$570,758, or 11.17%, from September 30, 2009 primarily due to an increase in claims payable. This liability is calculated by the Consortium's independent actuary and estimates the claims incurred and due at September 30, 2010.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

The chart below shows a breakdown of the Consortiums assets, liabilities and net assets for 2010 versus 2009:



The table below shows the changes in net assets for fiscal year 2010 and 2009.

	Change in Net Assets		
	2010	2009	Increase (Decrease)
<u>Operating Revenues:</u>			
Participant contributions	\$ 54,971,309	\$ 54,052,705	\$ 918,604
Prescription drug rebates	978,934	695,471	283,463
Stop loss reimbursements	685,880	955,873	(269,993)
Other	130,189	132,884	(2,695)
Total operating revenue	<u>56,766,312</u>	<u>55,836,933</u>	<u>929,379</u>
<u>Operating Expenses:</u>			
Claims	57,788,938	49,817,894	7,971,044
Life insurance premiums	330,700	330,268	432
Carrier stop loss premiums	634,136	689,635	(55,499)
Liability insurance premiums	16,743	16,743	-
Administration fees	2,408,091	2,315,624	92,467
Consulting fees	85,423	78,750	6,673
Legal and professional fees	95,122	69,337	25,785
Other fees	40,809	11,383	29,426
Total operating expenses	<u>61,399,962</u>	<u>53,329,634</u>	<u>8,070,328</u>
Operating income (loss)	<u>(4,633,650)</u>	<u>2,507,299</u>	<u>(7,140,949)</u>
<u>Nonoperating revenues:</u>			
Interest	148,486	456,823	(308,337)
Total nonoperating revenues	<u>148,486</u>	<u>456,823</u>	<u>(308,337)</u>
Change in net assets	<u>(4,485,164)</u>	<u>2,964,122</u>	<u>(7,449,286)</u>
Net assets, October 1	<u>16,221,411</u>	<u>13,257,289</u>	
Net assets, September 30	<u>\$ 11,736,247</u>	<u>\$ 16,221,411</u>	

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

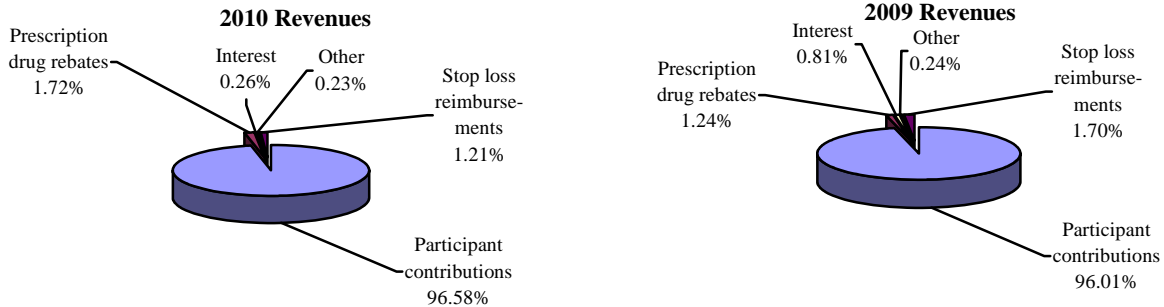
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Participant contributions revenue remained relatively flat, increasing only 1.70% from 2009. Sufficient participant contributions are required to ensure that the Consortium is able to meet increasing claims expenses. Prescription drug rebates increased due to increased activity in this area. Stop loss reimbursements decreased as fewer claims were subject to stop loss reimbursement in 2010 versus 2009. Other revenue, which includes subrogation receipts on the settlement of prior claims, remained consistent with prior year.

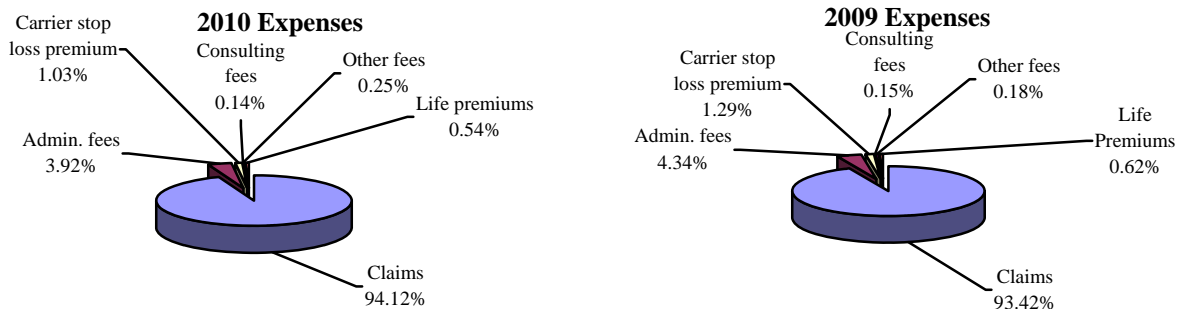
Interest revenue decreased \$308,337, or 67.50%, from 2009 primarily due to lower interest rates and returns on Consortium investments. The Consortium invested in federal agency securities during 2010.

Claims expense and administration fees increased due to increased claims activity experienced by the Consortium. The decrease in carrier stop loss premiums was offset by an increase in consulting, legal and professional and other fees. The Consortium aims to maintain premium revenues at a level sufficient to exceed current year claims expense. This did not occur in fiscal 2010. Claims expense was 101.80% of total fiscal year 2010 operating revenues while claims expense was 89.22% of total fiscal year 2009 operating revenues. The Consortium uses Medical Mutual of Ohio as their third party administrator.

The charts below reflect the percentage of the revenues in 2010 versus 2009:



The charts below reflect the percentage of the expenses in 2010 versus 2009:



**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Current Financial Related Activities

The Consortium is committed to providing its member 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 members to participate in the medical insurance program, with individual district choice as to participation in the dental, prescription drug, vision, and life programs. The Consortium Board of Directors and its administrative agent, AON, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for Consortium members. For fiscal year 2010, the Consortium's net assets decreased \$4,485,164 due to increased claims activity. Net assets reduced to \$11,736,247 at the end of fiscal year 2010. Establishing premiums that satisfy all claims, administration fees, and other expenses of the Consortium, in addition to enhancing the net assets position is important for the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium Board is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the original ten participating districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 5,500 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Board is faced with the unenviable 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 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 of Directors, and the future looks better from the collective, as opposed to individual, view of the fifteen participating districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our member districts, potential member districts and investors and creditors 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. Richard McIntosh, Treasurer, North Royalton City School District, 6579 Royalton Rd., North Royalton, Ohio 44133 or by calling (440) 237-8800.

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SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

ASSETS:

Current assets:

Cash and cash equivalents with fiscal agent	\$	5,498,181
Investments with fiscal agent		11,891,413
Receivables:		
Accrued interest		26,411
Total assets		17,416,005

LIABILITIES:

Current liabilities:

Accounts payable		8,758
Claims payable		5,671,000
Total liabilities		5,679,758

NET ASSETS:

Unrestricted.		11,736,247
Total net assets	\$	11,736,247

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

SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

Operating revenues:	
Participant contributions	\$ 54,971,309
Prescription drug rebates	978,934
Stop loss reimbursements	685,880
Other	130,189
	<hr/>
Total operating revenues	56,766,312
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Operating expenses:	
Claims	57,788,938
Life insurance premiums.	330,700
Carrier stop loss premiums.	634,136
Liability insurance premium	16,743
Administration fees	2,408,091
Consulting fees.	85,423
Legal and professional fees	95,122
Miscellaneous fees	40,809
	<hr/>
Total operating expenses.	61,399,962
	<hr/>
Operating loss	(4,633,650)
	<hr/>
Nonoperating revenues:	
Interest	148,486
	<hr/>
Total nonoperating revenues	148,486
	<hr/>
Change in net assets.	(4,485,164)
Net assets, October 1	16,221,411
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Net assets, September 30	\$ 11,736,247
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THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

Cash flows from operating activities:	
Cash received from participants	\$ 54,971,309
Cash received from prescription drug rebates	978,934
Cash received from stop loss reimbursements	685,880
Cash received from other operations	130,189
Cash payments for claims	(57,226,938)
Cash payments for life insurance premiums	(330,700)
Cash payments for carrier stop loss premiums	(634,136)
Cash payments for liability insurance premiums	(16,743)
Cash payments for administration fees	(2,408,091)
Cash payments for consulting fees	(85,423)
Cash payments for legal and professional fees	(86,364)
Cash payments for miscellaneous expenses	(40,809)
	<hr/>
Net cash (used in) operating activities	(4,062,892)
Cash flows from investing activities:	
Purchase of investments	(11,875,000)
Interest received	158,219
	<hr/>
Net cash (used in) investing activities	(11,716,781)
Net decrease in cash and cash equivalents	(15,779,673)
Cash and cash equivalents, October 1	21,277,854
Cash and cash equivalents, September 30	<u>\$ 5,498,181</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating loss	\$ (4,633,650)
Adjustments to reconcile operating loss to net cash (used in) operating activities:	
Changes in assets and liabilities:	
Increase in accounts payable	8,758
Increase in claims payable	562,000
	<hr/>
Net cash (used in) operating activities	<u>\$ (4,062,892)</u>

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - DESCRIPTION OF THE ENTITY

The Suburban Health Consortium (the "Consortium") is a legally separate entity organized under Ohio Revised Code Section 9.833. The Consortium was established on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverage for their employees and the eligible dependents and designated beneficiaries of such employees.

Some of the more significant provisions of the Consortium are as follows:

A. Board of Directors

The Board of Directors shall be the governing body of the Consortium. The Board of Education of each Consortium Member appoints its Superintendent or such Superintendent's designee, to be its representative on the Consortium's Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman and Recording Secretary, who are elected at the annual meeting of Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors. The Board of Directors sets and approves all benefit programs to be offered by or through the Consortium, and all policies and other contracts are accepted or entered into by the Consortium. The Board of Directors sets all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors has the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

B. Executive Committee

The Executive Committee consists of three members of the Board of Directors: the Chairman, and two other members. The Executive Committee has the full powers of the Board of Directors to manage and conduct affairs of the Consortium between meetings of the Board of Directors. The Executive Committee is specifically authorized and directed to review and decide all appeals and challenges by employees, their eligible dependents and designated beneficiaries of adverse determinations by the Plan Administrator or care or coverage under benefit programs offered by the Consortium.

The Board of Directors may ratify any action authorized or taken by the Executive Committee or may rescind and overrule any such action.

C. Fiscal Agent

The Fiscal Agent is responsible for administering the financial transactions of the Consortium. The North Royalton City School District (the "School District") serves as fiscal agent for the Consortium. The Fiscal Agent carries out the responsibilities of the Consortium Fund, enters into contracts on behalf of the Consortium as authorized by the Directors and carries out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Treasurer of the Fiscal Agent is the Treasurer of the Consortium. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board of Directors.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

D. Benefits

Consortium Member contributions are used to provide and/or purchase health, dental, life and/or other insurance benefits as provided for in the Consortium Agreement and as established by law. The Board of Directors determines, at their discretion, the insurance benefits to be provided by or through the Consortium. Benefit selections may vary among the Consortium Members for any type of benefit program. The Board of Directors determines, at their discretion, which insurance carriers and policies to utilize to provide benefits pursuant to the Consortium Agreement.

E. Enrollment by Member Districts

Each District decides which benefit program(s) offered by or through the Consortium shall be extended to its employees. Upon joining the Consortium, each Member District is required to enroll in a health benefit program (except as otherwise agreed by at least two-thirds of the Board of Directors).

F. Consortium Fund

The Consortium Fund consists of all payments made to the Fiscal Agent in accordance with the Consortium Agreement, policy dividends or rate refunds (whether received by the Consortium or left with the insurance carriers to accumulate with interest), investments made by the Fiscal Agent and income there from, and any other money or property which shall come into the hands of the Consortium in connection with the administration of benefit programs and the Consortium.

The Fiscal Agent may use the Consortium Fund for purposes such as, but not limited to:

1. To pay all expenses which the Directors consider necessary in establishing and administering the Consortium;
2. To pay premiums of the Consortium's policies;
3. To make investments in accordance with the Agreement;
4. To make refunds to Consortium Members; and,
5. To provide and/or purchase health insurance, life insurance, dental insurance and/or other insurance benefits.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

G. Termination / Withdrawal of a Consortium Member

It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement. Any Consortium Member, except for the Fiscal Agent, wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one-hundred-eighty (180) days prior to the effective date of withdrawal. The Fiscal Agent may resign as the Fiscal Agent of the Consortium and/or withdraw from the Consortium or any benefit program at any time by giving written notice of the date of such resignation and/or withdrawal to each Consortium Member and to the Chairman of the Board of Directors at least one hundred eighty (180) days prior to the date of resignation and/or withdrawal. Specifics governing the withdrawal of a Consortium Member and the run out of all claims for such Consortium Member are addressed in Section 10 of the Consortium Agreement.

H. Contributions

Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions are included in the payments from such District Member to the Fiscal Agent for the benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due.

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. The Consortium also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Consortium also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Consortium has elected not to apply these FASB Statements and Interpretations. The Consortium's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Consortium are not misleading. On this basis, no governmental organizations other than the Consortium itself are included in the financial reporting entity.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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

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 assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage, prescription drug rebates and stop loss reimbursements. Operating expenses for the Consortium include the payment of claims, carrier stop loss, life insurance and liability insurance premiums, and administrative and other fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments with Fiscal Agent

The North Royalton City School District, as the Consortium’s Fiscal Agent, maintains the Consortium financial activity on the School District’s books under a specific fund designated for Consortium activity.

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (North Royalton City School District), purchases specific investments for the Consortium. The interest earnings on specific consortium investments are distributed to the Consortium. The interest earnings on funds pooled with that of the School District are distributed to the Consortium based on the proportion of its fund balance to fund balances of applicable School District funds which receive interest earnings.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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

During 2010, investments of the Consortium were limited to Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities and Federal Home Loan Bank (FHLB) securities. Investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Mortgage Corporation (FHLMC) securities, FNMA securities, FFCB securities, FHLB securities and commercial paper. Investments are reported at fair value which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their fund for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on September 30, 2010.

For purposes of the statement of net assets and the statement of cash flows, investments purchased specifically by the Fiscal Agent for the Consortium with original maturities of three months or less at the time they are purchased are considered to be "cash equivalents". Investments purchased specifically by the Fiscal Agent for the Consortium with original maturities of more than three months at the time they are purchased are considered to be "investments". Pooled cash and investments maintained by the School District (of which a portion is attributable to the Consortium) are considered to be "cash and cash equivalents".

An analysis of the Consortiums cash and investments with its fiscal agent at fiscal 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. 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.

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (North Royalton City School District), purchases specific investments for the Consortium and then pools remaining available cash of the Consortium with that of the School District for investment purposes. The investment of Consortium monies follows the investment policy of the School District. The following disclosures are required by GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Investments Purchased by the Fiscal Agent specific to the Consortium

At September 30, 2010, the Consortium had the following investments purchased by the Fiscal Agent:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FNMA - Discount Note	\$ 999,680	\$ 999,680	\$ -	\$ -	\$ -	\$ -
FFCB - Discount Note	1,248,800	1,248,800	-	-	-	-
FFCB	6,003,980	-	4,003,980	2,000,000	-	-
FHLB	<u>3,638,953</u>	<u>-</u>	<u>-</u>	<u>1,133,438</u>	<u>1,501,995</u>	<u>1,003,520</u>
Total	<u>\$ 11,891,413</u>	<u>\$ 2,248,480</u>	<u>\$ 4,003,980</u>	<u>\$ 3,133,438</u>	<u>\$ 1,501,995</u>	<u>\$ 1,003,520</u>

The weighted average maturity of investments is 1.05 years.

Disclosures regarding investments of the Consortium are as follows:

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the Consortium's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Consortium's investments be structured so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk: The Consortiums investments in federal agency securities were rated AAA by Standard & Poor's. The Consortium has no investment policy that addresses credit risk.

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 investment or collateral securities that are in the possession of an outside party. All of the Consortium's investments in federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in Consortium's name. The Consortium has no investment policy dealing with investment custodial credit risk beyond the requirements in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the treasurer or qualified trustee.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

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 September 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA - Discount Note	\$ 999,680	8.41
FFCB - Discount Note	1,248,800	10.50
FFCB	6,003,980	50.49
FHLB	<u>3,638,953</u>	<u>30.60</u>
Total	<u>\$ 11,891,413</u>	<u>100.00</u>

Pooled Monies Invested by the Fiscal Agent for the Consortium

During fiscal year 2010, deposits maintained by the School District in financial institutions were covered by the Federal Deposit Insurance Corporation or were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. The School District has no deposit policy for custodial credit risk beyond requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose fair value at all times shall be at least one hundred five percent of the deposits being secured.

During fiscal year 2010, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and commercial paper. Disclosures regarding investments of the School District are as follows:

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk: The School District's investments, except for STAR Ohio, were rated AAA by Standard & Poor's. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The School District has no investment policy that addresses credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The School District's investments in federal agency securities and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in School District's name. The School District has no investment policy dealing with investment custodial credit risk beyond the requirements in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the Treasurer or qualified trustee.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Concentration of Credit Risk: The School District places no limit on the amount that may be invested in any one issuer.

Reconciliation to Statement of Net Assets

Investments purchased by Fiscal Agent specific to the Consortium	\$ 11,891,413
Pooled monies invested by the Fiscal Agent for the Consortium	<u>5,498,181</u>
Total	<u>\$ 17,389,594</u>

NOTE 4 - RISK MANAGEMENT

The Consortium is a jointly governed organization which acts as a governmental risk pool for health, life, dental and/or other insurance coverage for its 15 member districts. The risk of loss for loss transfers from the member districts to the Consortium upon payment of the monthly premium.

The Consortium employs the services of an outside consultant (AON) to assist them in administering the Consortium. The Consortium also uses Medical Mutual of Ohio as their third party administrator. Medical Mutual of Ohio administers the following lines of coverage: hospital base, medical/surgical, supplemental major medical, comprehensive major medical, prescription drug, dental, vision and super medical select.

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 Directors and/or the Fiscal Agent such liability insurance with such limits of coverage as approved by the Board of Directors. The aggregate claims liability of the Consortium shall not exceed one-hundred-twenty percent (120%) of expected claims. Any Consortium Member District which withdraws from the Consortium pursuant to the Consortium Agreement has no claim to the Consortium's assets.

It is not necessary for each Member District 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 District employee health insurance claims but maintains stop gap loss insurance with Medical Mutual of Ohio for \$200,000 on an individual basis. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided with the consortium's consultant (AON) in conjunction with Medical Mutual of Ohio which is the third party administrator.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 4 - RISK MANAGEMENT - (Continued)

The claims liability of \$5,671,000 reported at September 30, 2010, is based on an actuarial estimate provided by the third party administrator 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 the fiscal years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Claims payable at beginning of fiscal year	\$ 5,109,000	\$ 5,463,000
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	60,021,664	52,405,966
(Decrease) in claims expenses for insured events of the prior years	(2,232,726)	(2,588,072)
Total claims expenses	57,788,938	49,817,894
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	53,011,763	45,892,424
Claims expenses paid attributable to insured events of prior years	4,215,175	4,279,470
Total claims payments	57,226,938	50,171,894
Claims payable at end of fiscal year	\$ 5,671,000	\$ 5,109,000

NOTE 5 - LITIGATION

The Consortium is not party to legal proceedings which, in the opinion of Consortium management, will have a material effect, if any, on the financial condition of the Consortium.

NOTE 6 - SUBSEQUENT EVENTS

On January 1, 2011, the Medina County Career Center became a member of the Consortium. In addition, as of December 1, 2010, Group Health Care replaced AON as the Consortium's consultant.

REQUIRED SUPPLEMENTARY INFORMATION

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NINE-YEAR 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 show data for successive accident years. The Consortium has not provided loss development information for the year ended September 30, 2002. Loss development information for the fiscal years ended September 30, 2010, 2009, 2008, 2007, 2006, 2005, 2004, and 2003 is provided on the next page.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NINE-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)

	2002	2003	2004	2005	2006	2007	2008
1. Premiums and investment income	N/A	\$ 27,809,120	\$ 30,368,945	\$ 30,514,315	\$ 40,693,917	\$ 49,771,132	\$ 50,983,473
2. Unallocated expenses	N/A	3,070,120	3,019,904	3,034,126	3,281,060	3,783,417	3,836,803
3. Estimated losses incurred and expense, end of year	N/A	27,282,271	33,816,857	32,390,415	39,686,784	43,037,528	48,017,693
4. Paid, cumulative as of:							
End of accident year	N/A	24,264,464	25,890,448	24,678,178	30,934,495	36,523,230	42,316,635
One year later	N/A	26,280,233	28,311,975	27,586,972	34,651,946	40,462,081	46,547,235
Two years later	N/A	26,288,461	28,295,521	27,592,832	34,657,842	40,493,819	46,558,602
Three years later	N/A	26,294,408	28,295,859	27,594,452	34,673,821	40,499,857	-
Four years later	N/A	26,294,408	28,296,093	27,595,605	34,673,821	-	-
Five years later	N/A	26,294,408	28,296,093	27,595,605	-	-	-
Six years later	N/A	26,294,408	28,296,093	-	-	-	-
Seven years later	N/A	26,294,408	-	-	-	-	-
5. Re-estimated incurred losses and expense:							
End of accident year	N/A	27,282,271	33,816,857	32,390,415	39,686,784	43,037,528	48,017,693
One year later	N/A	26,957,599	28,988,465	28,842,574	35,969,333	41,718,821	45,478,491
Two years later	N/A	26,632,926	28,397,861	28,836,714	35,963,437	41,687,083	46,558,602
Three years later	N/A	26,308,254	28,397,523	28,835,094	35,947,458	41,681,045	-
Four years later	N/A	26,308,254	28,397,289	28,833,941	35,947,458	-	-
Five years later	N/A	26,308,254	28,397,289	27,595,605	-	-	-
Six years later	N/A	26,308,254	28,296,093	-	-	-	-
Seven years later	N/A	26,294,408	-	-	-	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	N/A	(987,863)	(5,520,764)	(4,794,810)	(3,739,326)	(1,356,483)	(1,459,091)

N/A - Information not available.

<u>2009</u>	<u>2010</u>
\$ 54,509,528	\$ 55,119,795
3,511,740	3,611,024
52,405,966	60,021,664
45,892,424	53,011,763
50,090,194	-
-	-
-	-
-	-
-	-
-	-
-	-
52,405,966	60,021,664
50,452,545	-
-	-
-	-
-	-
-	-
-	-
-	-
(1,953,421)	-

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**Independent Accountants' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Suburban Health Consortium
6579 Royalton Road
North Royalton, Ohio 44133

We have audited the basic financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, as of and for the fiscal year ended September 30, 2010, which collectively comprise the Suburban Health Consortium's basic financial statements and have issued our report thereon dated March 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Suburban Health Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Suburban Health Consortium's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Suburban Health Consortium's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Suburban Health Consortium's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Board of Directors
Suburban Health Consortium

Compliance and Other Matters

As part of reasonably assuring whether the Suburban Health Consortium's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion 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*.

We intend this report solely for the information and use of the management, the Board of Directors and others within the Suburban Health Consortium. We intend it for no one other than these specified parties.

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

Julian & Grube, Inc.
March 18, 2011



Dave Yost • Auditor of State

SUBURBAN HEALTH CONSORTIUM

CUYAHOGA 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
MAY 5, 2011**