

Suburban Health Consortium
Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
September 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Board of Directors
Suburban Health Consortium
32000 Chagrin Blvd
Pepper Pike, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the Suburban Health Consortium, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period October 1, 2018 through September 30, 2019. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 3, 2020

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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February 27, 2020

To the Board of Directors
Suburban Health Consortium
Cuyahoga County, Ohio
32000 Chagrin Boulevard
Pepper Pike, Ohio 44124

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Suburban Health Consortium, Cuyahoga County, Ohio, (the Consortium) as of and for the year ended September 30, 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Suburban Health Consortium, Cuyahoga County, Ohio, as of September 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Ten-Year Loss Development Information* as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2020 on our consideration of the Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Consortium's 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 Consortium's internal control over financial reporting and compliance.

Rea & Associates, Inc.

New Philadelphia, Ohio

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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, 2019. 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 2019 are as follows:

- In total, net position was \$14,057,733 at September 30, 2019. This represents an increase of \$4,894,085, or 53.41%, from September 30, 2018.
- The Consortium had operating revenues of \$104,032,181 and operating expenses of \$99,646,551 for fiscal year 2019. The Consortium had \$312,400 in interest revenue and an increase of \$196,055 in the fair value of the Consortium's investments. Operating income and the increase in net position for the fiscal year was \$4,385,630 and \$4,894,085, 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 position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Consortium.

Reporting the Consortium Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position 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 2019?" The statement of net position and the statement of revenues, expenses, and changes in net position 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 position and the statement of revenues, expenses and changes in net position report the Consortium's *net position* and changes in that position. This change in net position 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 position and statement of revenues, expenses, and changes in net position can be found on pages 9-10 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 11 of this report.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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 13-24 of this report.

Required Supplementary Information

Ten years of loss development information can be found on pages 25-27 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Consortium's net position for 2019 and 2018.

| | 2019 | 2018 |
|--|---------------|--------------|
| Net Position | | |
| <u>Assets</u> | | |
| Cash and cash equivalents with fiscal agent | \$ 5,543,538 | \$ 6,568,804 |
| Investments with fiscal agent - current | 6,596,519 | 5,814,262 |
| Investments with fiscal agent - noncurrent | 8,869,017 | 2,722,167 |
| Receivables (net of allowance for uncollectibles): | | |
| Accounts | 847,812 | 742,163 |
| Intergovernmental - current | 121,128 | 30,675 |
| Intergovernmental - noncurrent | 302,034 | 61,350 |
| Accrued interest | 58,581 | 25,093 |
| Total assets | 22,338,629 | 15,964,514 |
| <u>Liabilities:</u> | | |
| Unearned revenue | 315,549 | - |
| Claims payable | 7,965,347 | 6,800,866 |
| Total liabilities | 8,280,896 | 6,800,866 |
| <u>Net Position:</u> | | |
| Unrestricted | \$ 14,057,733 | \$ 9,163,648 |

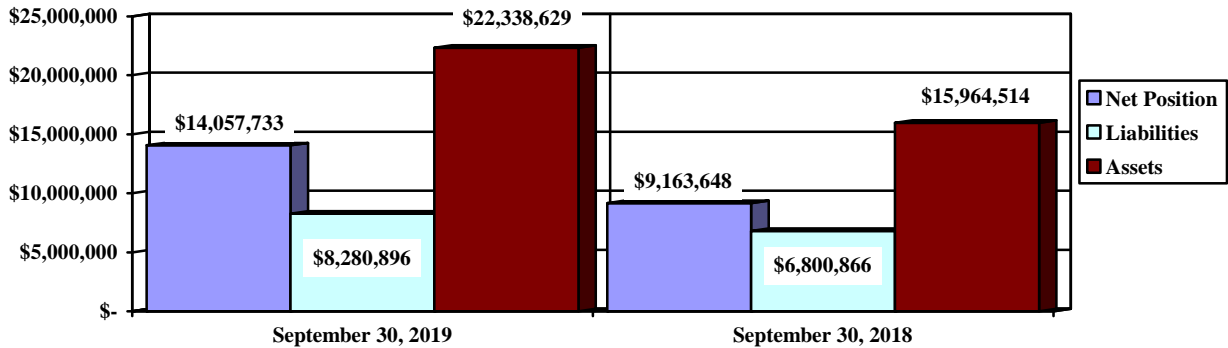
Total assets of the Consortium increased \$6,374,115, or 39.93%, from September 30, 2018 primarily due to an increase in cash and investments of \$5,903,841 due to operations. The Consortium has established premiums at a level to build reserves should claims payments fluctuate in a given year. The Consortium will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

Total liabilities of the Consortium increased \$1,480,030, or 21.76%, from September 30, 2018 primarily due to an increase in claims payable. The liability for claims payable is calculated by the Consortium's independent actuary and estimates the claims incurred and due at September 30, 2019 but that will not be paid until after that date.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

The chart below shows a breakdown of the Consortiums assets, liabilities and net position for 2019 versus 2018.



The table below shows the changes in net position for fiscal year 2019 and fiscal year 2018.

Change in Net Position

| | 2019 | 2018 | Increase (Decrease) |
|--|----------------------|---------------------|------------------------|
| <u>Operating Revenues:</u> | | | |
| Participant contributions | \$ 98,558,311 | \$ 90,719,171 | \$ 7,839,140 |
| Prescription drug rebates | 4,838,928 | 4,335,493 | 503,435 |
| Subrogation reimbursements | 182,676 | 93,780 | 88,896 |
| Participant buy-in fees | 452,266 | - | 452,266 |
| Other | - | 34,794 | (34,794) |
| Total operating revenue | <u>104,032,181</u> | <u>95,183,238</u> | <u>8,848,943</u> |
| <u>Operating Expenses:</u> | | | |
| Claims | 94,508,948 | 87,341,620 | 7,167,328 |
| Life insurance premiums | 53,980 | 105,191 | (51,211) |
| Carrier stop loss premiums | 1,413,820 | 1,135,365 | 278,455 |
| Liability insurance premiums | 16,978 | 16,539 | 439 |
| Administration fees | 3,209,936 | 3,083,679 | 126,257 |
| Consulting fees | 120,000 | 120,700 | (700) |
| Legal and professional fees | 166,299 | 125,718 | 40,581 |
| Miscellaneous fees | 156,590 | 241,871 | (85,281) |
| Total operating expenses | <u>99,646,551</u> | <u>92,170,683</u> | <u>7,475,868</u> |
| Operating income | <u>4,385,630</u> | <u>3,012,555</u> | <u>1,373,075</u> |
| <u>Nonoperating revenues:</u> | | | |
| Interest | 312,400 | 148,635 | 163,765 |
| Increase/(decrease) in fair value of investments | 196,055 | (63,926) | 259,981 |
| Total nonoperating revenues | <u>508,455</u> | <u>84,709</u> | <u>423,746</u> |
| Change in net position | 4,894,085 | 3,097,264 | 1,796,821 |
| Net position, October 1 | <u>9,163,648</u> | <u>6,066,384</u> | |
| Net position, September 30 | <u>\$ 14,057,733</u> | <u>\$ 9,163,648</u> | |

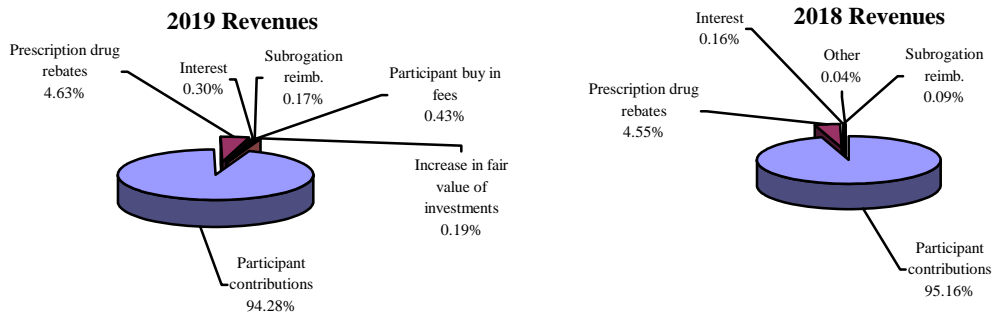
**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

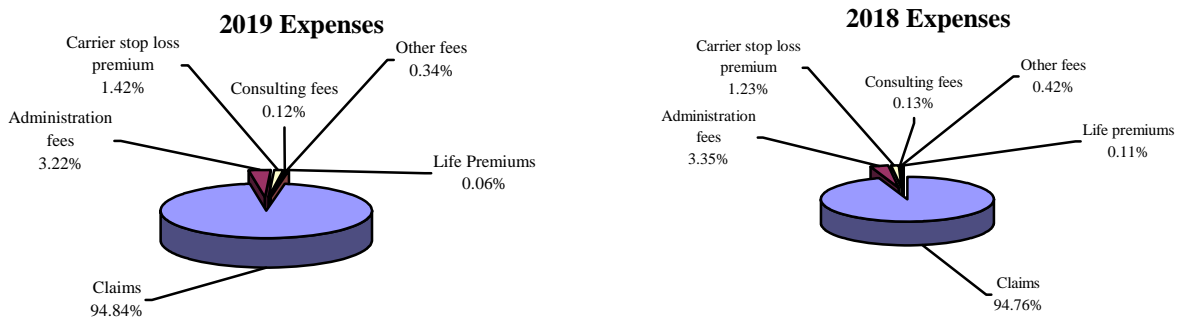
Participant contributions revenue increased 8.64% from fiscal year 2018. Sufficient participant contributions are required to ensure that the Consortium is able to meet increasing claims expenses. Prescription drug rebates from Express Scripts increased in fiscal year 2019 due to increased prescription drug claims subject to rebate. The Consortium's subrogation reimbursements increased \$88,896 from fiscal year 2018 to fiscal year 2019. Participant buy-in fees increased as revenues related to buy-ins are recognized in the year the buy-in commences. The Consortium had one new member start their 5-year buy in during fiscal year 2019. Interest revenue increased \$163,765, or 110.18%, from fiscal year 2018 due to more Consortium's monies invested and improved interest rates. The Consortium invested primarily in a federal agency securities, commercial paper, negotiable CD's and STAR Ohio during fiscal year 2019. The change in fair value of investments increased \$259,981 from the prior year. The Consortium intends to hold all investment to maturity thus eliminating the risk due to fluctuations their fair value while capturing the interest offered by the investments.

Claims expense, carrier stop-loss premiums, administration fees and legal and professional fees increased due to increased claims activity experienced by the Consortium. There was a decrease in life insurance premiums and miscellaneous fees during fiscal year 2019. Miscellaneous fees decreased as certain expenses previously recorded in this category in fiscal year 2018 have been reclassified to claims expense in fiscal year 2019. The Consortium aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 95.89% of fiscal year 2019 participant contributions revenue while claims expense was 96.28% of fiscal year 2018 participant contributions revenue. The Consortium uses Medical Mutual of Ohio as their third-party administrator.

The charts below reflect the percentage of the revenues in fiscal year 2019 versus fiscal year 2018.



The charts below reflect the percentage of the expenses in 2019 versus 2018:



**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

Current Financial Related Activities

The Consortium is committed to providing its member school 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 member school districts 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, Group Healthcare Consultants, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for member school districts. For fiscal year 2019, the Consortium's net position increased \$4,894,085 as participant contributions exceeded claims and administration expenses. Establishing premiums that satisfy all claims, administration fees, and other expenses of the Consortium, in addition to enhancing the net position is important for the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium's Board of Directors is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the member school districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 5,900 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claim costs for medical and prescription drug continue to escalate, the Board of Directors 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 member 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 20 member school districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our member school districts, potential member school 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. Todd Puster, Treasurer, Orange City School District, 32000 Chagrin Blvd., Pepper Pike, Ohio 44124-5974 or by email at tpuster@orangecsd.org.

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SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

ASSETS:

Current assets:

| | | |
|---|----|-----------|
| Cash and cash equivalents with fiscal agent | \$ | 5,543,538 |
| Investments with fiscal agent | | 6,596,519 |

Receivables:

| | | |
|-----------------------------|--|---------|
| Accounts | | 847,812 |
| Accrued interest | | 58,581 |
| Intergovernmental | | 121,128 |

| | | |
|--------------------------------|--|------------|
| Total current assets | | 13,167,578 |
|--------------------------------|--|------------|

Noncurrent assets:

| | | |
|---|--|-----------|
| Investments with fiscal agent | | 8,869,017 |
|---|--|-----------|

Receivables:

| | | |
|-----------------------------|--|---------|
| Intergovernmental | | 302,034 |
|-----------------------------|--|---------|

| | | |
|-----------------------------------|--|-----------|
| Total noncurrent assets | | 9,171,051 |
|-----------------------------------|--|-----------|

| | | |
|------------------------|--|------------|
| Total assets | | 22,338,629 |
|------------------------|--|------------|

LIABILITIES:

Current liabilities:

| | | |
|----------------------------|--|-----------|
| Claims payable | | 7,965,347 |
| Unearned revenue | | 315,549 |

| | | |
|-----------------------------|--|-----------|
| Total liabilities | | 8,280,896 |
|-----------------------------|--|-----------|

NET POSITION:

| | | |
|------------------------|----|------------|
| Unrestricted | \$ | 14,057,733 |
|------------------------|----|------------|

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 POSITION
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

Operating revenues:

| | |
|-------------------------------------|--------------------|
| Participant contributions | \$ 98,558,311 |
| Prescription drug rebates | 4,838,928 |
| Subrogation reimbursements. | 182,676 |
| Participant buy-in fees | <u>452,266</u> |
| Total operating revenues | <u>104,032,181</u> |

Operating expenses:

| | |
|---------------------------------------|-------------------|
| Claims | 94,508,948 |
| Life insurance premiums. | 53,980 |
| Carrier stop loss premiums. | 1,413,820 |
| Liability insurance premium | 16,978 |
| Administration fees | 3,209,936 |
| Consulting fees. | 120,000 |
| Legal and professional fees | 166,299 |
| Miscellaneous | <u>156,590</u> |
| Total operating expenses | <u>99,646,551</u> |

Operating income. 4,385,630

Nonoperating revenues:

| | |
|--|----------------|
| Interest. | 312,400 |
| Increase in fair value on investments. | <u>196,055</u> |
| Total nonoperating revenues | <u>508,455</u> |

Change in net position. 4,894,085

Net position, October 1 9,163,648

Net position, September 30 \$ 14,057,733

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, 2019

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from participants | \$ 98,873,860 |
| Cash received from prescription drug rebates | 4,733,279 |
| Cash received from subrogation reimbursements | 182,676 |
| Cash received from buy in fees | 121,129 |
| Cash payments for claims | (93,344,467) |
| Cash payments for life insurance premiums | (53,980) |
| Cash payments for carrier stop loss premiums | (1,413,820) |
| Cash payments for liability insurance premiums | (16,978) |
| Cash payments for administration fees | (3,209,936) |
| Cash payments for consulting fees | (120,000) |
| Cash payments for legal and professional fees | (166,299) |
| Cash payments for miscellaneous expenses | (156,590) |
| | <hr/> |
| Net cash provided by operating activities | 5,428,874 |
| Cash flows from investing activities: | |
| Purchase of investments | (12,542,792) |
| Redemption of investments. | 5,809,740 |
| Interest received | 278,912 |
| | <hr/> |
| Net cash used in investing activities | (6,454,140) |
| Net decrease in cash and cash equivalents with fiscal agent. | (1,025,266) |
| Cash and cash equivalents with fiscal agent, October 1 | 6,568,804 |
| Cash and cash equivalents with fiscal agent, September 30 | \$ 5,543,538 |
| | <hr/> <hr/> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 4,385,630 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Changes in assets and liabilities: | |
| (Increase) in accounts receivable. | (105,649) |
| (Increase) in intergovernmental receivables | (331,137) |
| Increase in unearned revenue | 315,549 |
| Increase in claims payable | 1,164,481 |
| | <hr/> |
| Net cash provided by operating activities. | \$ 5,428,874 |
| | <hr/> <hr/> |

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

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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 member school districts, 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. For fiscal year 2019, the Orange City School District (the “School District”) served 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 Board of Directors and carries out such other responsibilities as approved by the Board of 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, 2019

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

D. Benefits

Member school district 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 member school districts 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 School Districts

Each member school district decides which benefit program(s) offered by or through the Consortium shall be extended to its employees. Upon joining the Consortium, each member school 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 therefrom, 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 Board of 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 Consortium Agreement;
4. To make refunds to member school district; 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, 2019

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

G. Termination / Withdrawal of a Member School District

It is the express intention of the member school districts that the Consortium Agreement and the Consortium shall continue for an indefinite term but may be terminated as provided in the Consortium Agreement. Any member school district, 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 member school district 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 member school district and the run out of all claims for such member school district are addressed in Section 10 of the Consortium Agreement.

H. Contributions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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, 2019

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Consortium’s operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage, prescription drug rebates and subrogation reimbursements. Operating expenses for the Consortium include the payment of claims, carrier stop loss 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 Consortium’s Fiscal Agent maintains the Consortium financial activity under a specific fund designated for Consortium activity. The Fiscal Agent is responsible for administering the financial transactions of the Consortium. For fiscal year 2019, the Orange City School District served as Fiscal Agent for the Consortium.

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (the Orange City School District) has established a separate depository account for Consortium activities and purchases specific investments for the Consortium. The interest earnings on these Consortium accounts are distributed to the Consortium.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

During fiscal year 2019, investments purchased by the Fiscal Agent for the Consortium were limited to Federal National Mortgage Association (FNMA) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal Home Loan Bank (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, U.S. Treasury notes, negotiable certificates of deposit (negotiable CDs), commercial paper, a U.S. government money market mutual fund, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for investments in STAR Ohio, investments are reported at fair value.

The fair value of investments was \$61,310 less than their cost basis at September 30, 2018 and was \$134,745 more than their cost basis at September 30, 2019. The fluctuation in the fair values of investments of \$196,055 is reported as an increase of nonoperating revenue in the financial statements.

During fiscal year 2019, the Consortium invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Consortium measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

For purposes of the statement of net position and the statement of cash flows, investments purchased 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 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". An analysis of the Consortiums cash and investments with its Fiscal Agent at fiscal year-end is provided in Note 3.

E. Budgetary Process

Each member school district 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.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

G. Fair Value Measurements

The Consortium categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent, maintains a specific depository account and purchases specific investments for the Consortium. The deposit and 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".

State statutes allow the School District as Fiscal Agent for the Consortium to deposit or invest the Consortium's monies in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days and two hundred seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**SUBURBAN HEALTH CONSORTIUM
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

Protection of the Consortium's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As Fiscal Agent, the School District maintains a separate depository account and a separate investment account for monies specific to the Consortium. The amounts held in the depository account and the investment account at fiscal year year-end are described below.

A. Deposits with Fiscal Agent held in Financial Institutions

At June 30, 2019, the carrying amount and bank balance of all Consortium deposits was \$4,447,421. Of the bank balance, \$250,000 was covered by the FDIC, \$2,098,711 was covered by the Ohio Pooled Collateral System, and \$2,098,710 was exposed to custodial credit risk discussed below because those deposits were uninsured and uncollateralized.

Custodial credit risk is the risk that, in the event of bank failure, the Consortium will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Consortium has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Consortium's and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the Consortium's financial institution was approved for a reduced collateral rate of 50 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Consortium to a successful claim by the FDIC.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

B. Investments with Fiscal Agent

At September 30, 2019, the Consortium had the following investments purchased by the Fiscal Agent:

| Measurement/ Investment type | Measurement Value | Investment Maturities | | | | |
|---|----------------------|-----------------------|---------------------|--------------------|---------------------|---------------------------|
| | | 6 months or less | 7 to 12 months | 13 to 18 months | 19 to 24 months | Greater than 24 months |
| <i>Fair Value:</i> | | | | | | |
| FNMA | \$ 527,819 | \$ - | \$ 527,819 | \$ - | - | \$ - |
| FHLMC | 4,141,529 | - | 314,311 | - | 700,057 | 3,127,161 |
| FHLB | 1,119,595 | - | 1,119,595 | - | - | - |
| FFCB | 749,253 | - | - | - | - | 749,253 |
| Negotiable CDs | 4,787,654 | 247,005 | 248,103 | 997,012 | 500,530 | 2,795,004 |
| Commercial paper | 3,040,039 | 2,842,631 | 197,408 | - | - | - |
| U.S. Treasury notes | 1,099,647 | 1,099,647 | - | - | - | - |
| U.S. Government money market mutual fund | 19,433 | 19,433 | - | - | - | - |
| <i>Amortized Cost:</i> | | | | | | |
| STAR Ohio | <u>1,076,684</u> | <u>1,076,684</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 16,561,653</u> | <u>\$ 5,285,400</u> | <u>\$ 2,407,236</u> | <u>\$ 997,012</u> | <u>\$ 1,200,587</u> | <u>\$ 6,671,418</u> |

The weighted average maturity of investments is 1.67 years. The weighted average of maturity of investments in STAR Ohio are 53 days.

The Consortium's investments purchased by the Fiscal Agent in U.S. Government Money Market Mutual Funds are valued using quoted market prices in active markets (Level 1 inputs). The Consortium's investments purchased by the Fiscal Agent in federal agency securities (FNMA, FHLMC, FHLB, FFCB), negotiable CDs, commercial paper, and U.S. Treasury notes are valued using quoted market prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs). As discussed in Note 2.D, investments in STAR Ohio is reported at its net asset value.

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 and according to State law, the School District's investment policy (which the Consortium follows) limits investment portfolio maturities to five years or less.

Credit Risk: The Consortiums investments in federal agency securities (FNMA, FHLMC, FHLB, FFCB) and U.S. Treasury notes were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. STAR Ohio and the U.S. government money market mutual funds were rated AAAm by Standard & Poor's. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. The commercial paper was rated P-1 and between A-1 and A-1+ by Moody's and Standard & Poor's, respectively. The negotiable CDs are not rate but were fully covered by the FDIC. The School District's investment policy (which the Consortium follows) does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District, as Fiscal Agent for 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. The Consortium's investments in federal agency securities (FNMA, FHLMC, FHLB, FFCB), U.S. Treasury notes, 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 the School District's or Consortium's name. The School District's investment policy (which the Consortium follows) does not deal 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.

Concentration of Credit Risk: The School District's investment policy (which the Consortium follows) 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, 2019:

| <u>Measurement/ Investment type</u> | <u>Measurement Value</u> | <u>% of Total</u> |
|---|------------------------------|-------------------|
| <i>Fair Value:</i> | | |
| FNMA | \$ 527,819 | 3.19 |
| FHLMC | 4,141,529 | 25.00 |
| FHLB | 1,119,595 | 6.76 |
| FFCB | 749,253 | 4.52 |
| Negotiable CDs | 4,787,654 | 28.91 |
| Commercial paper | 3,040,039 | 18.36 |
| U.S. Treasury notes | 1,099,647 | 6.64 |
| U.S. Government money market mutual fund | 19,433 | 0.12 |
| <i>Amortized Cost:</i> | | |
| STAR Ohio | <u>1,076,684</u> | <u>6.50</u> |
| Total | <u>\$ 16,561,653</u> | <u>100.00</u> |

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

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

C. Reconciliation of Cash and Investments with Fiscal Agent to the Statement of Net Position

The following is a reconciliation of cash and investments with Fiscal Agent as reported in the note above to cash and investments with Fiscal Agent reported on the statement of net position as of September 30, 2019:

| | |
|--|----------------------|
| <u>Cash and investments with Fiscal Agent per note</u> | |
| Carrying amount of deposits with Fiscal Agent | \$ 4,447,421 |
| Investments with Fiscal Agent | <u>16,561,653</u> |
| Total | <u>\$ 21,009,074</u> |
| <u>Cash and investments with Fiscal Agent per financial statements</u> | |
| Cash and cash equivalents with Fiscal Agent | \$ 5,543,538 |
| Investments with Fiscal Agent - current | 6,596,519 |
| Investments with Fiscal Agent - noncurrent | <u>8,869,017</u> |
| Total | <u>\$ 21,009,074</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 20 member school districts. The risk of loss for loss transfers from the member school districts to the Consortium upon payment of the monthly premium.

The Consortium employs the services of an outside consultant, Group Healthcare Consultants, 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, dental, vision and super medical select. Prescription drug benefits are provided and administered by Express Scripts.

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 Board of 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 member school 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 school 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.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

NOTE 4 - RISK MANAGEMENT - (Continued)

The Consortium is self-insured for member school district employee health insurance claims but maintains stop gap loss insurance with Medical Mutual of Ohio for \$500,000 on an individual basis. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member school districts based on calculations provided with the consortium's consultant Group Healthcare Consultants in conjunction with Medical Mutual of Ohio which is the third-party administrator.

The claims liability of \$7,965,347 reported at September 30, 2019, 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, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---|--------------|--------------|
| Claims payable at beginning of fiscal year | \$ 6,800,866 | \$ 5,522,483 |
| <u>Claims expenses:</u> | | |
| Claims expenses for insured events of the current period | 94,064,140 | 87,792,064 |
| Increase (decrease) in claims expenses for insured events of the prior years | 444,808 | (450,444) |
| Total claims expenses | 94,508,948 | 87,341,620 |
| <u>Payments:</u> | | |
| Claims expenses paid attributable to insured events of the current year | 86,797,903 | 81,507,736 |
| Claims expenses paid attributable to insured events of prior years | 6,546,564 | 4,555,501 |
| Total claims payments | 93,344,467 | 86,063,237 |
| Claims payable at end of fiscal year | \$ 7,965,347 | \$ 6,800,866 |

NOTE 5 - LITIGATION

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

NOTE 6 - RECEIVABLES

All receivables are shown net of an allowance for uncollectible amounts, as applicable, and are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At September 30, 2019, the Consortium reported a \$58,581 accrued interest receivable for accrued interest on investments, \$847,812 accounts receivable for prescription drug rebates due to the Consortium related to fiscal year 2019 activity, and \$423,162 intergovernmental receivable for deferred participant buy-in fees. At September 30, 2019, there were two member school districts who are paying their buy-in fee over a five year period.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

NOTE 6 - RECEIVABLES - (Continued)

All receivables are expected to be collected within one year except the intergovernmental receivable which will be collected through fiscal year 2023. The amount of the intergovernmental receivable expected to be collected in fiscal year 2020 is reported as a current asset with the remainder reported as a noncurrent asset.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2019, the Consortium has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Consortium.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

TEN-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. Loss development information for the fiscal years ended September 30, 2010 through 2019 is provided on the next page.

**SUBURBAN HEALTH CONSORTIUM
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TEN-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| 1. Premiums and investment income | \$ 55,119,795 | \$ 64,046,463 | \$ 68,484,883 | \$ 71,591,007 | \$ 76,131,495 |
| 2. Unallocated expenses | 3,611,024 | 3,629,718 | 3,508,229 | 3,655,236 | 3,939,010 |
| 3. Estimated losses incurred and expense, end of year | 60,021,664 | 67,755,190 | 69,319,500 | 74,110,063 | 76,188,533 |
| 4. Paid, cumulative as of: | | | | | |
| End of accident year | 53,011,763 | 59,910,044 | 61,473,406 | 64,899,431 | 66,713,154 |
| One year later | 57,794,920 | 63,875,089 | 66,105,777 | 68,913,151 | 71,253,559 |
| Two years later | 57,805,850 | 63,864,399 | 66,119,809 | 68,945,149 | 71,340,823 |
| Three years later | 57,807,295 | 63,867,156 | 66,131,796 | 68,944,769 | 71,344,370 |
| Four years later | 57,807,278 | 63,867,958 | 66,131,831 | 68,944,769 | 71,344,538 |
| Five years later | 57,807,363 | 63,867,958 | 66,131,831 | 68,944,769 | 71,344,538 |
| Six years later | 57,807,363 | 63,867,958 | 66,131,866 | 68,944,769 | - |
| Seven years later | 57,807,363 | 63,867,958 | 66,131,866 | - | - |
| Eight years later | 57,807,363 | 63,867,958 | - | - | - |
| Nine years later | 57,807,363 | - | - | - | - |
| 5. Re-estimated incurred losses and expense: | | | | | |
| End of accident year | 60,021,664 | 67,755,190 | 69,319,500 | 74,110,063 | 76,188,533 |
| One year later | 57,794,920 | 64,846,721 | 66,105,777 | 68,913,151 | 71,648,128 |
| Two years later | 57,805,850 | 63,864,399 | 66,119,809 | 68,945,149 | 71,350,783 |
| Three years later | 57,807,295 | 63,867,156 | 66,131,796 | 68,944,769 | 71,344,370 |
| Four years later | 57,807,278 | 63,867,958 | 66,131,831 | 68,944,769 | 71,344,202 |
| Five years later | 57,807,363 | 63,867,958 | 66,131,831 | 68,944,769 | 71,344,538 |
| Six years later | 57,807,363 | 63,867,958 | 66,131,831 | 68,944,769 | - |
| Seven years later | 57,807,363 | 63,867,958 | 66,131,866 | - | - |
| Eight years later | 57,807,363 | 63,867,958 | - | - | - |
| Nine years later | 57,807,363 | - | - | - | - |
| 6. Increase (decrease) in estimated incurred losses and expenses from end of accident year | (2,214,301) | (3,887,232) | (3,187,634) | (5,165,294) | (4,843,995) |

| <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---------------|---------------|---------------|---------------|---------------|
| \$ 73,535,544 | \$ 76,098,020 | \$ 82,535,391 | \$ 90,867,806 | \$ 98,870,711 |
| 4,903,270 | 5,372,109 | 4,735,516 | 4,829,063 | 5,137,567 |
| 76,719,407 | 79,009,686 | 83,370,821 | 87,792,064 | 94,064,140 |
| 67,968,103 | 72,560,865 | 78,401,037 | 81,507,736 | 86,797,903 |
| 72,978,872 | 79,137,508 | 83,301,405 | 87,975,675 | - |
| 73,117,091 | 78,818,317 | 83,284,640 | - | - |
| 73,091,212 | 78,913,707 | - | - | - |
| 73,091,212 | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 76,719,407 | 79,009,686 | 83,370,821 | 87,792,064 | 94,064,140 |
| 73,552,755 | 79,678,545 | 83,789,225 | 88,666,388 | - |
| 73,128,753 | 78,783,986 | 83,293,037 | - | - |
| 73,154,632 | 78,913,707 | - | - | - |
| 73,091,212 | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| (3,628,195) | (95,979) | (77,784) | 874,324 | - |

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February 27, 2020

To the Board of Directors
Suburban Health Consortium
Cuyahoga County, Ohio
32000 Chagrin Boulevard
Pepper Pike, OH 44124

Independent Auditor's 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*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio (the Consortium) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements, and have issued our report thereon dated February 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

OHIO AUDITOR OF STATE KEITH FABER



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
APRIL 16, 2020**