



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2003**



**Auditor of State  
Betty Montgomery**



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Directors  
Suburban Health Consortium  
Cuyahoga County  
1470 Warren Road  
Lakewood, Ohio 44107

We have audited the accompanying financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, (the Consortium) as of and for the year ended September 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the 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 *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 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 that 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, Cuyahoga County, Ohio, as of September 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended September 30, 2003, the Consortium implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, and changed its basis of accounting from another comprehensive basis of accounting to generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003 on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 14, 2003

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003  
UNAUDITED

The 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, 2003. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Consortium's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- In total, net assets were \$689,918 at September 30, 2003.
- The Consortium had operating revenues of \$27,791,852 and operating expenses of \$27,303,831 for fiscal year 2003. The Consortium had \$79,871 in interest revenue. This figure includes interest earned plus any changes in the fair market value of investments. Operating income and net income for the fiscal year was \$488,021 and \$567,892, 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, Expense 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 asks the question, "How did we do financially during 2003?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements 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.

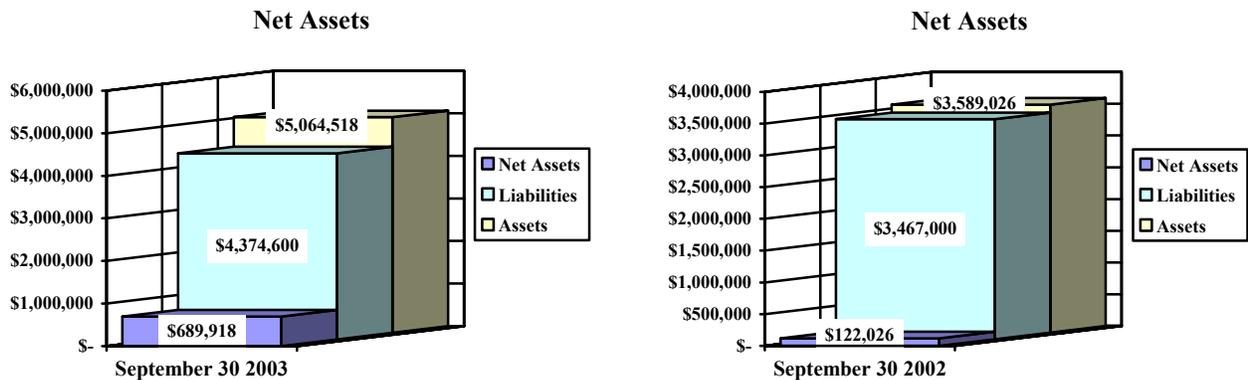
**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003  
UNAUDITED

The table below provides a summary of the Consortium's net assets for 2003 and 2002. Information for 2002 has been restated to confirm with 2003 presentation on an accrual basis of accounting.

|                           | <b>Net Assets</b> |                   |
|---------------------------|-------------------|-------------------|
|                           | <u>2003</u>       | <u>2002</u>       |
| <b><u>Assets</u></b>      |                   |                   |
| Assets                    | \$ 5,064,518      | \$ 3,589,026      |
| Total assets              | <u>5,064,518</u>  | <u>3,589,026</u>  |
| <b><u>Liabilities</u></b> |                   |                   |
| Liabilities               | <u>4,374,600</u>  | <u>3,467,000</u>  |
| Total liabilities         | <u>4,374,600</u>  | <u>3,467,000</u>  |
| <b><u>Net Assets</u></b>  |                   |                   |
| Unrestricted              | <u>689,918</u>    | <u>122,026</u>    |
| Total net assets          | <u>\$ 689,918</u> | <u>\$ 122,026</u> |

Fiscal 2002 was the Consortium's first year of operations. Net assets increased by \$567,892 primarily due to increased participation in 2003 by member districts coupled with claims payments as a percentage of participant contributions being lower in 2003 than it was in 2002. Claims expense was 87.20% of total fiscal 2003 operating revenue while claims expense was 88.63% of total fiscal 2002 operating revenue. As margins improved from fiscal 2002, coupled with increased participant's contributions, net assets increased.



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

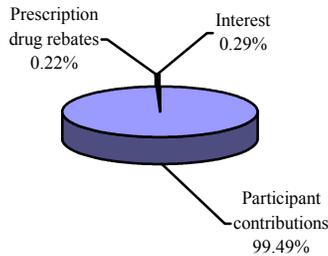
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003  
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2003 and 2002.

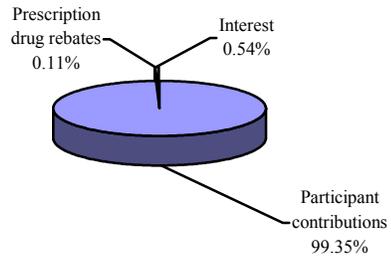
**Change in Net Assets**

|                           | <u>2003</u>       | <u>2002</u>       | <u>Increase<br/>(Decrease)</u> |
|---------------------------|-------------------|-------------------|--------------------------------|
| <b>Revenues:</b>          |                   |                   |                                |
| Participant contributions | \$27,729,249      | \$22,827,695      | \$4,901,554                    |
| Prescription drug rebates | 62,603            | 25,914            | 36,689                         |
| Interest                  | 79,871            | 124,702           | (44,831)                       |
| Total revenue             | <u>27,871,723</u> | <u>22,978,311</u> | <u>4,893,412</u>               |
| <b>Expenses:</b>          |                   |                   |                                |
| Claims                    | 24,233,711        | 20,254,655        | 3,979,056                      |
| Administration fees       | 2,555,099         | 2,213,644         | 341,455                        |
| Carrier stop loss premium | 412,842           | 253,952           | 158,890                        |
| Consulting fees           | 92,660            | 114,000           | (21,340)                       |
| Other fees                | 9,519             | 20,034            | (10,515)                       |
| Total expenses            | <u>27,303,831</u> | <u>22,856,285</u> | <u>4,447,546</u>               |
| Change in net assets      | <u>\$ 567,892</u> | <u>\$ 122,026</u> | <u>\$ 445,866</u>              |

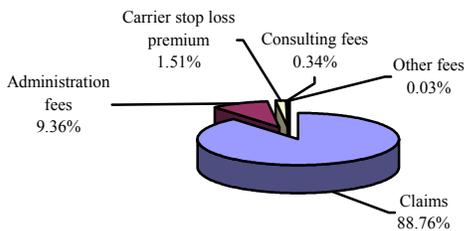
**2003 Revenues**



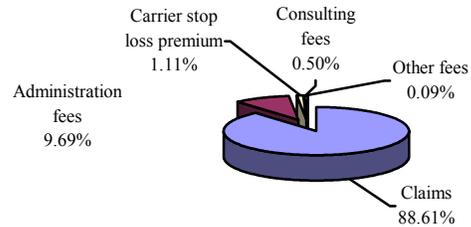
**2002 Revenues**



**2003 Expenses**



**2002 Expenses**



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003  
UNAUDITED

**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. Since its inception, the Consortium has added one additional member to the Consortium, and will continue to look at other 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.

Life insurance was added as a new product line for Consortium members in fiscal year 2003. 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, Grossman Consulting, continually discusses program enhancements to the existing product line, in addition to watching for new opportunities for consortium members.

For fiscal year 2002, the initial year of Consortium operations, consortium net assets were \$122,026. Net assets grew to \$698,918 at the end of fiscal year 2003. 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 3,500 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 eleven (11) participating districts.

**Contacting the Consortium's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, 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 Berdine, Treasurer, Lakewood City School District, 1470 Warren Road, Lakewood, Ohio 44107 or by calling (216) 529-4096.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2003

|  |                          |
|--|--------------------------|
| ASSETS:  |                          |
| Cash and investments with fiscal agent . . . . . | \$ 5,049,921             |
| Accrued interest receivable . . . . .            | <u>14,597</u>            |
| Total assets . . . . .                           | <u>5,064,518</u>         |
| LIABILITIES:                                     |                          |
| Claims payable . . . . .                         | <u>4,374,600</u>         |
| Total liabilities . . . . .                      | <u>4,374,600</u>         |
| NET ASSETS:                                      |                          |
| Unrestricted . . . . .                           | <u>689,918</u>           |
| Total net assets . . . . .                       | <u><u>\$ 689,918</u></u> |

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

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

|   |                   |
|---|-------------------|
| Operating revenues:                       |                   |
| Participant contributions . . . . .       | \$ 27,729,249     |
| Prescription drug rebates . . . . .       | <u>62,603</u>     |
| Total operating revenues . . . . .        | <u>27,791,852</u> |
| Operating expenses:                       |                   |
| Claims . . . . .                          | 24,233,711        |
| Administration fees. . . . .              | 2,555,099         |
| Carrier stop loss premiums . . . . .      | 412,842           |
| Consulting fees. . . . .                  | 92,660            |
| Legal fees . . . . .                      | 7,432             |
| Miscellaneous fees . . . . .              | <u>2,087</u>      |
| Total operating expenses . . . . .        | <u>27,303,831</u> |
| Operating income . . . . .                | <u>488,021</u>    |
| Nonoperating revenues:                    |                   |
| Interest . . . . .                        | <u>79,871</u>     |
| Total nonoperating revenues . . . . .     | <u>79,871</u>     |
| Net income . . . . .                      | 567,892           |
| Net assets, October 1 (restated). . . . . | <u>122,026</u>    |
| Net assets, September 30 . . . . .        | <u>\$ 689,918</u> |

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

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**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 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 Lakewood City School District serves as the Fiscal Agent. 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)**

**D. Benefits**

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**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**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's significant accounting policies are described below.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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

**A. Reporting Entity**

The Consortium's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The financial statements include all operations for which the Consortium is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organizations other than the Consortium itself are included in the financial reporting entity.

**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 operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its activities.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from participants contributions for insurance coverage. 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.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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

**D. Cash With Fiscal Agent**

The Lakewood City School District, the Consortium's fiscal agent, maintains the Consortium financial activity on the Lakewood City School District books under a specific fund designated for Consortium activity.

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (Lakewood City School District), pools all available cash of the Consortium with that of the Lakewood City School District for investment purposes. The interest earnings are then distributed to the Consortium based on the proportion of its fund balance to the entire Lakewood City School District balance. As a result, there are no separately identified investments for the Consortium.

During 2003, investments of the Lakewood City School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and federal agency securities.

Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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 share price which is the price the investment could be sold for on September 30, 2003.

For purposes of the Statement of Net Assets, pooled investments maintained by Lakewood City School District (of which a portion is attributable to the Consortium) with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Consortiums cash and investments with its fiscal agent at fiscal year-end is provided in Note 4.

**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.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Changes in Accounting Principle**

For the fiscal year ended September 30, 2003, the Consortium has presented for the first time its basic financial statements in accordance with GAAP. In conjunction with this presentation, the Consortium has converted its enterprise fund activities to the accrual basis of accounting. This conversion required that certain adjustments be recorded to the September 30, 2002 cash fund balance as previously reported to reflect the prior years' effect of adopting these new accounting principles.

In conjunction with implementing GAAP, the consortium has implemented the provisions of GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments; Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At September 30, 2002, there was no effect on net assets as a result of implementing GASB Statements 37, 38 and Interpretation No. 6.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the Consortium's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The restatements to the opening net assets are as follows:

| Balance as<br>Previously<br>Stated at<br><u>September 30, 2002</u> | <u>Adjustments</u>   | Restated<br>Net Assets at<br><u>October 1, 2002</u> |
|--|----------------------|---|
| <u>\$3,553,453</u>   | <u>\$(3,431,427)</u> | <u>\$122,026</u>                                    |

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**NOTE 4 - CASH AND INVESTMENTS WITH FISCAL AGENT**

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (Lakewood City School District), pools all available cash of the Consortium with that of the School District for investment purposes. The interest earnings are then distributed to the Consortium based on the proportion of its fund balance to the entire Lakewood CSD balance. As a result, there are no separately identified investments for the Consortium. During 2003, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and federal agency securities. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Non-participating investment contracts such as repurchase agreements are reported at cost and along with federal agency securities are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the School District's name.

**NOTE 5 - RISK MANAGEMENT**

The Consortium is a jointly governed organization which acts as a government risk pool for health insurance for its 11 member districts.

The Consortium employs the services of an outside consultant (Grossman and Associates) to assist them in administering the Consortium. The Consortium also uses Medical Mutual of Ohio and AdvancePCS as their third party administrators.

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 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 Suburban Health 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 (Grossman and Associates) in conjunction with Medical Mutual of Ohio and AdvancePCS systems which are the third party administrators.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

**NOTE 5 - RISK MANAGEMENT - (Continued)**

The claims liability of \$4,374,600 reported at September 30, 2003, is based on an estimate provided by the third party administrators 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 by plan for the past two fiscal years are as follows:

| <u>Fiscal<br/>Year</u> | <u>Beginning<br/>Balance</u> | <u>Current<br/>Year Claims</u> | <u>Claims<br/>Payments</u> | <u>Ending<br/>Balance</u> |
|------------------------|------------------------------|--------------------------------|----------------------------|---------------------------|
| 2003                   | \$3,467,000                  | \$24,233,711                   | \$(23,326,111)             | \$4,374,600               |
| 2002                   | 0                            | 20,254,655                     | (16,787,655)               | 3,467,000                 |

The Consortium first fiscal year of operations was in 2002. This is why the beginning balance of the 2002 fiscal year liability is zero.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Suburban Health Consortium  
Cuyahoga County  
1470 Warren Road  
Lakewood, Ohio 44107

We have audited the financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, (the Consortium) as of and for the year ended September 30, 2003, and have issued our report thereon dated November 14, 2003, wherein we noted the Consortium adopted Government Accounting Standards Board Statements No. 34 and changed its basis of accounting from another comprehensive basis of accounting to generally accepted accounting principles. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and by-laws, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Consortium in a separate letter dated November 14, 2003.

Suburban Health Consortium  
Cuyahoga County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 14, 2003



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**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  
JANUARY 13, 2004**