

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(Audited)

*FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009*

RICHARD MCINTOSH, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Suburban Health Consortium, Cuyahoga County, prepared by Julian & Grube, Inc., for the audit period October 1, 2008 through September 30, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 9, 2010

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, as of and for the fiscal year ended September 30, 2009, which collectively comprise the Suburban Health Consortium's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Suburban Health Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 respective financial position of the Suburban Health Consortium, Cuyahoga County, Ohio, as of September 30, 2009, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2010, on our consideration of the Suburban Health Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 3 through 7 and 20 and 21, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Julian & Grube, Inc.
February 26, 2010

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

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, 2009. 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 2009 are as follows:

- In total, net assets were \$16,221,411 at September 30, 2009.
- The Consortium had operating revenues of \$55,836,933 and operating expenses of \$53,329,634 for fiscal year 2009. The Consortium had \$456,823 in interest revenue which includes interest earned plus any changes in the fair market value of the Consortium's investments. Operating income and the change in net assets for the fiscal year was \$2,507,299 and \$2,964,122, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *statement of net assets* and *statement of revenues, expenses, and changes in net assets* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations.

Reporting the Consortium Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2009?" The statement of net assets and the statement of revenues, expenses, and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the Consortium's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Consortium's statement of net assets and statement of revenues, expenses, and changes in net assets can be found on pages 8-9 of this report.

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 10 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-19 of this report.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

Required Supplementary Information

Eight years of loss development information can be found on pages 20-21 of this report.

Net Assets and Changes in Net Assets

The table below provides a summary of the Consortium's net assets for 2009 and 2008.

	2009	2008
<u>Assets</u>		
Cash and investments with fiscal agent	\$ 21,277,854	\$ 18,395,519
Receivables (net of allowance for uncollectibles):		
Intergovernmental	-	241,219
Accrued interest	52,557	87,859
Total assets	21,330,411	18,724,597
<u>Liabilities:</u>		
Accounts payable	-	4,308
Claims payable	5,109,000	5,463,000
Total liabilities	5,109,000	5,467,308
<u>Net Assets:</u>		
Unrestricted	16,221,411	13,257,289
Total net assets	\$ 16,221,411	\$ 13,257,289

Net assets increased by \$2,964,122, or 22.36%, from September 30, 2008 primarily due to participant contributions revenue continuing to exceed claims expenses in the current year. The Consortium is continuing to generate premium revenue that exceeds claims payments which allows the Consortium to build reserves for claim payment fluctuations in the future.

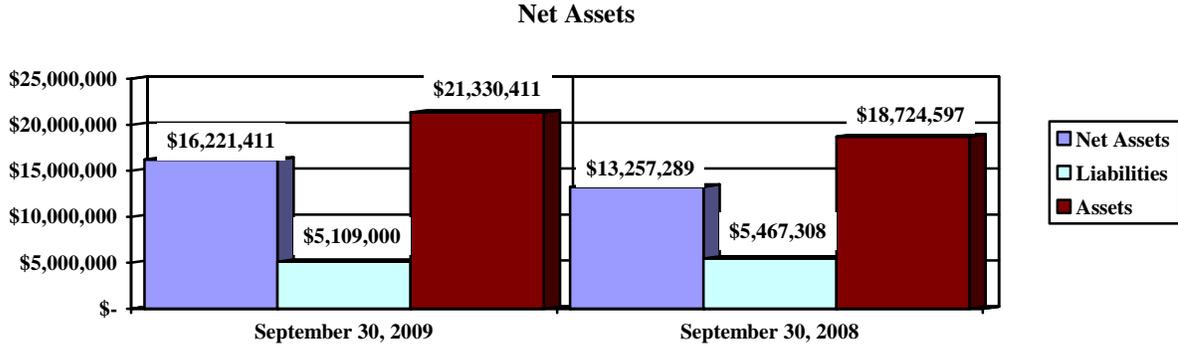
Total assets of the Consortium increased \$2,605,814, or 13.92%, from September 30, 2008 primarily in the area of cash and investments. Cash and investments increased as the Consortium continued to collect participant contribution revenue in excess of claims payments.

Total liabilities of the Consortium decreased \$358,308, or 6.55%, from September 30, 2008 primarily due to a decrease in claims payable. This liability is calculated by the Consortium's independent actuary and estimates the claims incurred and due at September 30, 2009.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

The chart below shows a breakdown of the Consortiums assets, liabilities and net assets for 2009 versus 2008:



The table below shows the changes in net assets for fiscal year 2009 and 2008.

	Change in Net Assets		
	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
<u>Operating Revenues:</u>			
Participant contributions	\$ 54,052,705	\$ 50,264,004	\$ 3,788,701
Prescription drug rebates	695,471	464,427	231,044
Stop loss reimbursements	955,873	-	955,873
Other	132,884	67,271	65,613
Total operating revenue	<u>55,836,933</u>	<u>50,795,702</u>	<u>5,041,231</u>
<u>Operating Expenses:</u>			
Claims	49,817,894	46,691,236	3,126,658
Life insurance premiums	330,268	348,019	(17,751)
Carrier stop loss premiums	689,635	594,248	95,387
Liability insurance premiums	16,743	16,743	-
Administration fees	2,315,624	2,742,803	(427,179)
Consulting fees	78,750	57,500	21,250
Legal and professional fees	69,337	71,997	(2,660)
Other fees	11,383	5,493	5,890
Total operating expenses	<u>53,329,634</u>	<u>50,528,039</u>	<u>2,801,595</u>
Operating income	<u>2,507,299</u>	<u>267,663</u>	<u>2,239,636</u>
<u>Nonoperating revenues:</u>			
Interest	456,823	719,469	(262,646)
Total nonoperating revenues	<u>456,823</u>	<u>719,469</u>	<u>(262,646)</u>
Change in net assets	<u>2,964,122</u>	<u>987,132</u>	<u>1,976,990</u>
Net assets, October 1	<u>13,257,289</u>	<u>12,270,157</u>	
Net assets, September 30	<u>\$ 16,221,411</u>	<u>\$ 13,257,289</u>	

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

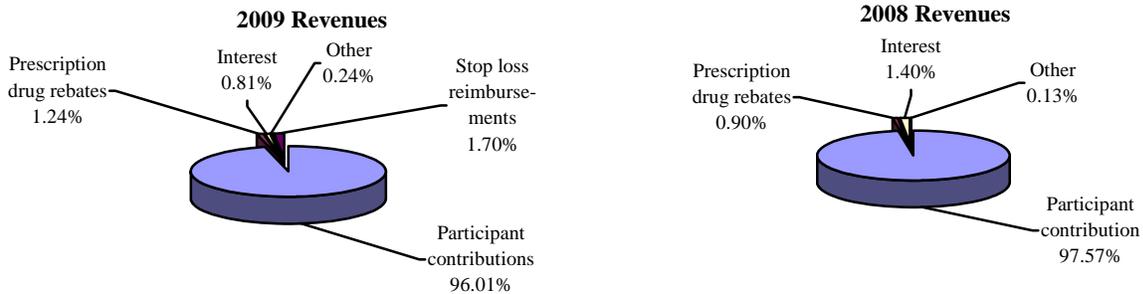
Participant contributions increased as premiums paid by the member Districts increased. Sufficient participant contributions are required to ensure that the Consortium is able to meet the increasing claims expenses. Prescription drug rebates increased due to increased activity in this area. Stop loss reimbursements increased as claims were sent to stop loss carriers for reimbursement which is included as operating revenue. The Consortium did not have stop loss reimbursement revenue prior to fiscal year 2009. Other revenues increased due to subrogation receipts on the settlement of prior claims.

Interest revenue, a nonoperating revenue, decreased \$262,646, or 36.51%, from 2008 primarily due to lower interest rates and returns on Consortium investments. The Consortium invested in federal agency securities and nonnegotiable certificates of deposit during 2009.

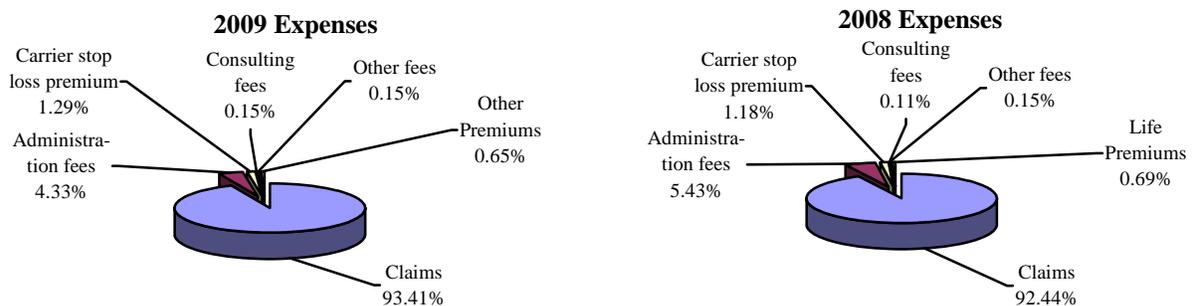
Claims expense and carrier stop loss premiums increased due to increased claims activity experienced by the Consortium. Consulting fees increased in 2009. The Consortium to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 89.22% of total fiscal year 2009 operating revenue while claims expense was 91.92% of total fiscal year 2008 operating revenue.

The Consortium had a decrease in administration fees of \$427,179, or 15.57%, from 2008. The Consortium uses Medical Mutual of Ohio as their third party administrator.

The charts below reflect the percentage of the revenues in 2009 versus 2008:



The charts below reflect the percentage of the expenses in 2009 versus 2008:



**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

Current Financial Related Activities

The Consortium is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. The Consortium will continue to look at potential members who meet the established criteria. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The Consortium requires its members to participate in the medical insurance program, with individual district choice as to participation in the dental, prescription drug, vision, and life programs. The Consortium Board of Directors and its administrative agent, AON, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for Consortium members. For fiscal year 2009, the Consortium net assets increased \$2,964,122. Net assets grew to \$16,221,411 at the end of fiscal year 2009. 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 4,900 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 fourteen participating districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our member districts, potential member districts and investors and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard McIntosh, Treasurer, North Royalton City School District, 6579 Royalton Rd., North Royalton, Ohio 44133 or by calling (440) 237-8800.

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

ASSETS:	
Cash and investments with fiscal agent	\$ 21,277,854
Receivables:	
Accrued interest	<u>52,557</u>
Total assets	<u>21,330,411</u>
LIABILITIES:	
Claims payable	<u>5,109,000</u>
Total liabilities	<u>5,109,000</u>
NET ASSETS:	
Unrestricted	<u>16,221,411</u>
Total net assets	<u><u>\$ 16,221,411</u></u>

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

Operating revenues:	
Participant contributions	\$ 54,052,705
Prescription drug rebates	695,471
Stop loss reimbursement	955,873
Other	<u>132,884</u>
 Total operating revenues	 <u>55,836,933</u>
Operating expenses:	
Claims.	49,817,894
Life insurance premiums	330,268
Carrier stop loss premiums	689,635
Liability insurance premium	16,743
Administration fees.	2,315,624
Consulting fees.	78,750
Legal and professional fees	69,337
Miscellaneous fees	<u>11,383</u>
 Total operating expenses	 <u>53,329,634</u>
 Operating income.	 <u>2,507,299</u>
Nonoperating revenues:	
Interest.	<u>456,823</u>
 Total nonoperating revenues	 <u>456,823</u>
 Change in net assets	 2,964,122
Net assets, October 1	<u>13,257,289</u>
Net assets, September 30.	<u><u>\$ 16,221,411</u></u>

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, 2009

Cash flows from operating activities:	
Cash received from participants	\$ 54,293,924
Cash received from prescription drug rebates	695,471
Cash received from stop loss reimbursements	955,873
Cash received from other revenues	132,884
Cash payments for claims	(50,171,894)
Cash payments for life insurance premiums	(334,576)
Cash payments for carrier stop loss premiums	(689,635)
Cash payments for liability insurance premium	(16,743)
Cash payments for administration fees	(2,315,624)
Cash payments for consulting fees	(78,750)
Cash payments for legal fees	(69,337)
Cash payments for miscellaneous fees	(11,383)
	<hr/>
Net cash provided by operating activities	2,390,210
Cash flows from investing activities:	
Interest received	492,125
	<hr/>
Net cash provided by investing activities	492,125
Net increase in cash and cash equivalents	
	2,882,335
Cash and cash equivalents, October 1	
	18,395,519
Cash and cash equivalents, September 30.	
	<u>\$ 21,277,854</u>
Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ 2,507,299
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	241,219
(Decrease) in accounts payable	(4,308)
(Decrease) in claims payable	(354,000)
	<hr/>
Net cash provided by operating activities	<u>\$ 2,390,210</u>

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 - DESCRIPTION OF THE ENTITY

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

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

A. Board of Directors

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

B. Executive Committee

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

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

C. Fiscal Agent

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

D. Benefits

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

E. Enrollment by Member Districts

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

F. Consortium Fund

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

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

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

G. Termination / Withdrawal of a Consortium Member

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

H. Contributions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Consortium have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Consortium also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Consortium also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Consortium has elected not to apply these FASB Statements and Interpretations. The Consortium's significant accounting policies are described below.

A. Reporting Entity

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

B. Fund Accounting

The Consortium maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Consortium uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Consortium utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Consortium’s activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Consortium’s operations are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage. 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 North Royalton City School District, as the Consortium’s Fiscal Agent, maintains the Consortium financial activity on the School District’s books under a specific fund designated for Consortium activity.

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

During 2009, investments of the Consortium were limited to federal agency securities and certificates of deposit and investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and commercial paper. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposit, 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 shares price which is the price the investment could be sold for on September 30, 2009.

For purposes of the statement of net assets and the statement of cash flows, investments of the Consortium and pooled investments maintained by the 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 as they represent the Consortiums internal investment pool. 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 3.

E. Budgetary Process

The member school districts of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

F. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

Deposits and Investments Purchased by the Fiscal Agent specific to the Consortium

A. Deposits with Financial Institutions

At September 30, 2009, the carrying amount of all Consortium deposits, which are comprised of nonnegotiable certificates of deposit, was \$6,000,000. Based on the criteria described in GASB Statement No. 40, as of September 30, 2009, \$5,750,000 of the Consortium's bank balance of \$6,000,000 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Consortium's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Consortium. The Consortium has no deposit policy for custodial risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and 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.

B. Investments

At September 30, 2009, the Consortium had the following investments purchased by the Fiscal Agent:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
FHLMC	\$ 4,030,420	\$ 2,018,600	\$ -	\$ 2,011,820
FHLB	2,160,776	1,647,466	513,310	-
Total	<u>\$ 6,191,196</u>	<u>\$ 3,666,066</u>	<u>\$ 513,310</u>	<u>\$ 2,011,820</u>

The weighted average maturity of investments is 0.71 years.

Disclosures regarding investments of the Consortium are as follows:

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

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

Concentration of Credit Risk: The Consortium places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Consortium at September 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 4,030,420	65.10
FHLB	2,160,776	34.90
Total	<u>\$ 6,191,196</u>	<u>100.00</u>

Pooled Monies Invested by the Fiscal Agent for the Consortium

During fiscal year 2009, deposits maintained by the School District in financial institutions were covered by the Federal Deposit Insurance Corporation or were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. The School District has no deposit policy for custodial credit risk beyond requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

During fiscal year 2009, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and commercial paper. Disclosures regarding investments of the School District are as follows:

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

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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

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

Reconciliation to Statement of Net Assets

Deposits purchased by Fiscal Agent specific to the Consortium	\$ 6,000,000
Investments purchased by Fiscal Agent specific to the Consortium	6,191,196
Pooled monies invested by the Fiscal Agent for the Consortium	<u>9,086,658</u>
Total	<u><u>\$21,277,854</u></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 14 member districts.

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

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Consortium or any property of the Consortium. The rights and interest of employees and persons claiming by or through employees shall be limited receipt benefits offered by or through the Consortium in accordance with the Consortium Agreement. The Consortium purchases or otherwise provides for the benefit of itself, the Directors and/or the Fiscal Agent such liability insurance with such limits of coverage as approved by the Board of Directors. The aggregate claims liability of the Consortium shall not exceed one-hundred-twenty percent (120%) of expected claims. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement has no claim to the Consortium's assets.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

NOTE 4 - RISK MANAGEMENT - (Continued)

It is not necessary for each member District to hold a reserve for Incurred But Not Reported (IBNR) claims. The IBNR information is presented by the Consortium as required by GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", and is not available on a District-by-District basis.

The Consortium is self insured for Member District employee health insurance claims but maintains stop gap loss insurance with Medical Mutual of Ohio for \$200,000 on an individual basis. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided with the consortium's consultant (AON) in conjunction with Medical Mutual of Ohio which is the third party administrator.

The claims liability of \$5,109,000 reported at September 30, 2009, 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, 2009 and 2008 were as follows:

	2009	2008
Claims payable at beginning of fiscal year	\$ 5,463,000	\$ 5,035,000
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	52,405,966	48,017,693
(Decrease) in claims expenses for insured events of the prior years	(2,588,072)	(1,326,457)
Total claims expenses	49,817,894	46,691,236
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	45,892,424	42,316,635
Claims expenses paid attributable to insured events of prior years	4,279,470	3,946,601
Total claims payments	50,171,894	46,263,236
Claims payable at end of fiscal year	\$ 5,109,000	\$ 5,463,000

NOTE 5 - LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

EIGHT-YEAR LOSS DEVELOPMENT INFORMATION

The following table illustrates how the Consortium's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table show data for successive accident years. The Consortium has not provided loss development information for the year ended September 30, 2002. Loss development information for the fiscal years ended September 30, 2009, 2008, 2007, 2006, 2005, 2004, and 2003 is provided on the next page.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

EIGHT-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)

	2002	2003	2004	2005	2006	2007	2008	2009
1. Premiums and investment income	N/A	\$ 27,809,120	\$ 30,368,945	\$ 30,514,315	\$ 40,693,917	\$49,771,132	\$50,983,473	\$54,509,528
2. Unallocated expenses	N/A	3,070,120	3,019,904	3,034,126	3,281,060	3,783,417	3,836,803	3,511,740
3. Estimated losses incurred and expense, end of year	N/A	27,282,271	33,816,857	32,390,415	39,686,784	43,037,528	48,017,693	52,405,966
4. Paid, cumulative as of:								
End of accident year	N/A	24,264,464	25,890,448	24,678,178	30,934,495	36,523,230	42,316,635	45,892,424
One year later	N/A	26,280,233	28,311,975	27,586,972	34,651,946	40,462,081	46,547,235	-
Two years later	N/A	26,288,461	28,295,521	27,592,832	34,657,842	40,493,819	-	-
Three years later	N/A	26,294,408	28,295,859	27,594,452	34,673,821	-	-	-
Four years later	N/A	26,294,408	28,296,093	27,595,605	-	-	-	-
Five years later	N/A	26,294,408	28,296,093	-	-	-	-	-
Six years later	N/A	26,294,408	-	-	-	-	-	-
5. Re-estimated incurred losses and expense:								
End of accident year	N/A	27,282,271	33,816,857	32,390,415	39,686,784	43,037,528	48,017,693	52,405,966
One year later	N/A	26,957,599	28,988,465	28,842,574	35,969,333	41,718,821	45,478,491	-
Two years later	N/A	26,632,926	28,397,861	28,836,714	35,963,437	41,687,083	-	-
Three years later	N/A	26,308,254	28,397,523	28,835,094	35,947,458	-	-	-
Four years later	N/A	26,308,254	28,397,289	28,833,941	-	-	-	-
Five years later	N/A	26,308,254	28,397,289	-	-	-	-	-
Six years later	N/A	26,308,254	-	-	-	-	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	N/A	(974,017)	(5,419,568)	(3,556,474)	(3,739,326)	(1,350,445)	(2,539,202)	-

N/A - Information not available.

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

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

We have audited the financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, as of and for the fiscal year ended September 30, 2009, which collectively comprise Suburban Health Consortium's basic financial statements and have issued our report thereon dated February 26, 2010. 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.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Suburban Health Consortium's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Suburban Health Consortium's financial statements that is more than inconsequential will not be prevented or detected by Suburban Health Consortium's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Suburban Health Consortium's internal control.

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

Board of Directors
Suburban Health Consortium

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Suburban Health Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

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

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

Julian & Grube, Inc.
February 26, 2010



Mary Taylor, CPA
Auditor of State

SUBURBAN HEALTH CONSORTIUM

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2010**