



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2002**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**





**Auditor of State  
Betty Montgomery**

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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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, 2002. 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.

As described in Note 1, the Consortium prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Suburban Health Consortium, Cuyahoga County, Ohio, as of September 30, 2002, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002 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 by-laws. 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.

This report is intended solely for the information and use of management, the Board of Directors and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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**Jim Petro**  
Auditor of State

December 23, 2002

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**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

	<u><b>2002</b></u>
<b>Cash Receipts:</b>	
Participants Contributions	\$22,827,695
Interest	89,129
Prescription Drug Rebates (Advance PCS)	<u>25,914</u>
 Total Cash Receipts	 <u>22,942,738</u>
<b>Cash Disbursements:</b>	
Carrier Stop Loss Premiums	253,952
Administration Fees	2,243,589
Adjustment to Stop Loss & Administration Fees	(29,945)
Medical Self Funded Claims	12,673,428
Prescription Drug (Advanced PCS) Self Funded Claims	2,631,117
Dental Self Funded Claims	1,323,142
Vision Self Funded Claims	159,968
Legal Fees	18,847
Consulting Fees	114,000
Miscellaneous Fees	<u>1,187</u>
 Total Cash Disbursements	 <u>19,389,285</u>
 Total Receipts Over/(Under) Disbursements	 <u>3,553,453</u>
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	   3,553,453
 Cash Balance, October 1, 2001	 <u>0</u>
 <b>Cash Balance, September 30, 2002</b>	 <b><u><u>\$3,553,453</u></u></b>

*The notes to the financial statement are an integral part of this statement.*

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**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The following description of the Suburban Health Consortium (the Consortium) provides only general information. Participants should refer to the Consortium Agreement for a more complete description of the Consortium's provisions.

General

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. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. In addition, the Consortium maintains By-laws and each participating school district signs an Agreement.

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 of 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.

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.

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 FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity (Continued)**

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.

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).

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

Investments

The Treasurer of the Fiscal Agent, custodian of the Consortium, makes such investments as it may determine in its discretion, provided that such investments conform with investment policies and guidelines established by the Board of Directors and limited to investments permitted under Chapter 135 of the Ohio Revised Code for the public monies of school districts.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity (Continued)**

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.

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.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

The Lakewood City School District, the Consortium's fiscal agent, maintains the Consortium financial activity on the Lakewood CSD books under a specific fund designated for Consortium activity. The balances in this fund are presented as Cash Balances on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances for the Year Ended September 30, 2002.

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002  
(Continued)**

**2. EQUITY IN CASH AND INVESTMENTS**

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 2002, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, non-negotiable certificates of deposit, 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. Certificate of deposits are valued at costs.

**3. RISK MANAGEMENT**

The Suburban Health 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 Advanced PCS 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 of the Consortium to prepare a Governmental Accounting Standards Board (GASB) report. The Consortium, not the individual Member District, holds the reserves for Incurred But Not Reported (IBNR) claims. The IBNR information 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 Advanced PCS systems which are the third party administrators. An estimate of September 30, 2002 loss reserves estimated by the Consortium's actuary are as follows:

**SUBURBAN HEALTH CONSORTIUM  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002  
(Continued)**

**3. RISK MANAGEMENT (Continued)**

<u>Plan</u>	<u>Loss Reserve</u>
Medical	\$2,995,900
Prescription Drug	212,500
Dental	<u>258,600</u>
Total	<u>\$3,467,000</u>

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**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 accompanying financial statements of the Suburban Health Consortium, Cuyahoga County, Ohio, (the Consortium) as of and for the year ended September 30, 2002, and have issued our report thereon dated December 23, 2002. 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*. However, we noted certain immaterial instances of noncompliance that we have reported to the Board in a separate letter dated December 23, 2002.

**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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Consortium in a separate letter dated December 23, 2002.

This report is intended solely 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

**Jim Petro**  
Auditor of State

December 23, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**SUBURBAN HEALTH CONSORTIUM**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 1, 2003**