

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**BASIC
FINANCIAL STATEMENTS**

(Audited)

*FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006*

RICHARD MCINTOSH, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Trustees
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, 2005 through September 30, 2006. 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 26, 2007

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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 (the "Consortium") as of and for the fiscal year ended September 30, 2006, which collectively comprise the Consortium's basic financial statements 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 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 as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 March 16, 2007, on our consideration of the Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Suburban Health Consortium
Page Two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Consortium taken as a whole. The supplemental claim information on pages 18 - 19 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of Consortium's management. Such information for the year ended September 30, 2006 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
March 16, 2007

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets were \$5,160,008 at September 30, 2006.
- The Consortium had operating revenues of \$40,638,343 and operating expenses of \$38,504,727 for fiscal year 2006. The Consortium had \$343,166 in interest revenue. This figure includes interest earned plus any changes in the fair value of investments held on-behalf of the Consortium by the fiscal agent. Operating income and the change in net assets for the fiscal year was \$2,133,616 and \$2,476,782, 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 2006?" 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 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 7-8 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 9 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 10-17 of this report.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

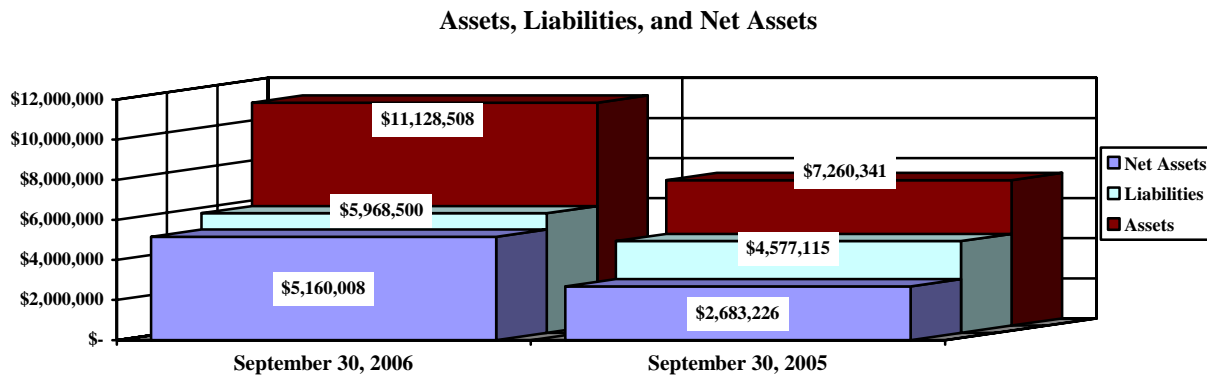
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

The table below provides a summary of the Consortium's net assets for 2006 and 2005.

Net Assets		
	2006	2005
<u>Assets</u>		
Cash and investments with fiscal agent	\$11,052,952	\$ 7,255,735
Receivables (net of allowance for uncollectibles):		
Accrued interest	73,434	4,606
Intergovernmental	2,122	-
Total assets	11,128,508	7,260,341
<u>Liabilities:</u>		
Accounts payable	500	-
Claims payable	5,968,000	4,577,115
Total liabilities	5,968,500	4,577,115
<u>Net Assets:</u>		
Unrestricted	5,160,008	2,683,226
Total net assets	<u>\$ 5,160,008</u>	<u>\$ 2,683,226</u>

Net assets increased by \$2,476,782 primarily due to operating revenues exceeding operating expenses by \$2,133,616 coupled with approximately a \$146,561 increase in interest revenue earned in fiscal 2006 compared to fiscal 2005. Claims expense was 86.68% of total fiscal 2006 operating revenue while claims expense was 88.09% of total fiscal 2005 operating revenue.

The chart below shows a breakdown of the Consortiums assets, liabilities and net assets for 2006 versus 2005:



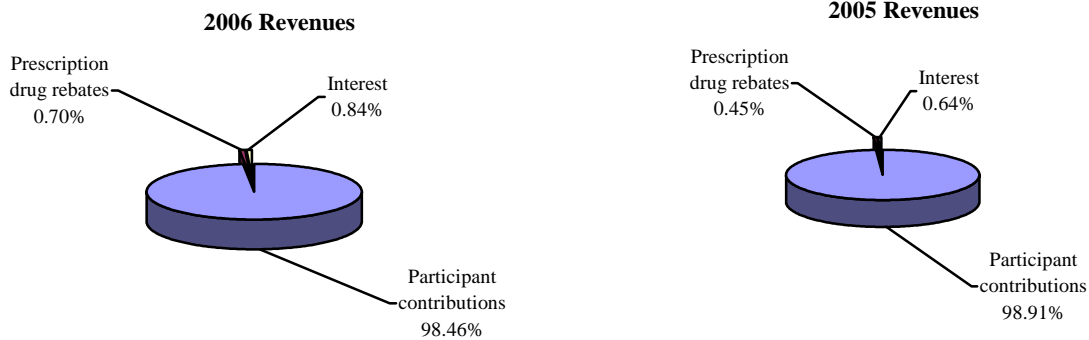
**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

The table below shows the changes in net assets for fiscal year 2006 and 2005. Certain amounts for 2005 have been reclassified to conform with 2006 classifications.

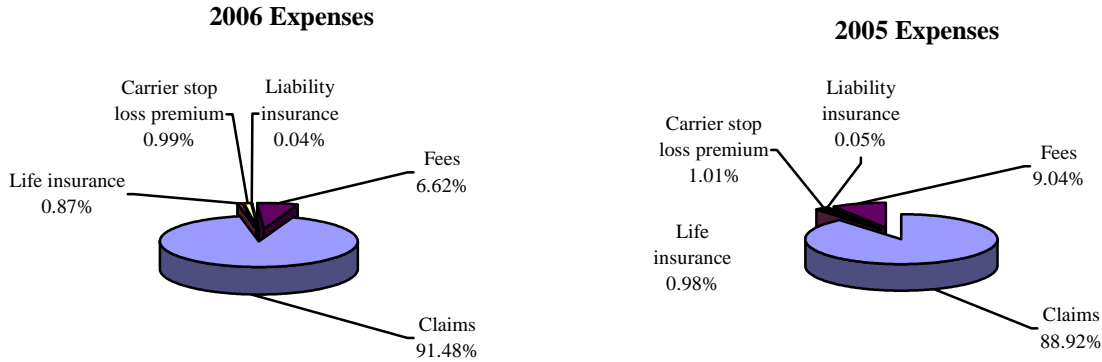
Change in Net Assets			
	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
<u>Revenues:</u>			
Participant contributions	\$ 40,350,751	\$ 30,317,710	\$ 10,033,041
Prescription drug rebates	287,592	137,301	150,291
Interest	<u>343,166</u>	<u>196,605</u>	<u>146,561</u>
Total revenue	<u>40,981,509</u>	<u>30,651,616</u>	<u>10,329,893</u>
<u>Expenses:</u>			
Claims	35,223,667	26,826,536	8,397,131
Life insurance premiums	335,955	295,645	40,310
Carrier stop loss premium	381,100	306,183	74,917
Liability insurance premium	16,232	16,232	-
Administration fees	2,350,908	2,595,130	(244,222)
Consulting fees	184,171	117,939	66,232
Other fees	<u>12,694</u>	<u>14,874</u>	<u>(2,180)</u>
Total expenses	<u>38,504,727</u>	<u>30,172,539</u>	<u>8,332,188</u>
Change in net assets	<u>\$ 2,476,782</u>	<u>\$ 479,077</u>	<u>\$ 1,997,705</u>

The charts below reflect the percentage of the revenues and expenses in 2006 versus 2005:



**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**



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 three additional members 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.

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 discuss program enhancements to the existing product line, in addition to watching for new opportunities for consortium members.

For fiscal year 2005, the Consortium net assets were \$2,683,226. Net assets grew to \$5,160,008 at the end of fiscal year 2006. 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 thirteen (13) participating districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our participants and other interested parties 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.

**SURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS:	
Cash and investments with fiscal agent	\$ 11,052,952
Receivables:	
Accrued interest	73,434
Intergovernmental	<u>2,122</u>
Total assets	<u>11,128,508</u>
LIABILITIES:	
Accounts payable	500
Claims payable	<u>5,968,000</u>
Total liabilities	<u>5,968,500</u>
NET ASSETS:	
Unrestricted	<u>5,160,008</u>
Total net assets	<u>\$ 5,160,008</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, 2006

Operating revenues:	
Participant contributions	\$ 40,350,751
Prescription drug rebates	<u>287,592</u>
Total operating revenues	<u>40,638,343</u>
Operating expenses:	
Claims	35,223,667
Life insurance premiums	335,955
Carrier stop loss premiums	381,100
Liability insurance premium	16,232
Administration fees	2,350,908
Consulting fees	184,171
Legal fees	11,477
Miscellaneous fees	<u>1,217</u>
Total operating expenses	<u>38,504,727</u>
Operating income	<u>2,133,616</u>
Nonoperating revenues:	
Interest	<u>343,166</u>
Total nonoperating revenues	<u>343,166</u>
Change in net assets	2,476,782
Net assets, October 1, 2005	<u>2,683,226</u>
Net assets, September 30, 2006	<u>\$ 5,160,008</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, 2006

Cash flows from operating activities:	
Cash received from participants	\$ 40,348,629
Cash received from prescription drug rebates	287,592
Cash payments for claims	(33,832,782)
Cash payments for life insurance premiums	(335,955)
Cash payments for carrier stop loss premiums	(381,100)
Cash payments for liability insurance premium	(16,232)
Cash payments for administration fees	(2,350,908)
Cash payments for consulting fees	(183,671)
Cash payments for legal fees	(11,477)
Cash payments for miscellaneous fees	<u>(1,217)</u>
Net cash provided by operating activities	<u>3,522,879</u>
Cash flows from investing activities:	
Interest received	<u>274,338</u>
Net cash provided by investing activities	<u>274,338</u>
Net increase in cash and cash equivalents	3,797,217
Cash and cash equivalents, October 1, 2005	<u>7,255,735</u>
Cash and cash equivalents, September 30, 2006	<u>\$ 11,052,952</u>
Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ 2,133,616
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(2,122)
Increase in accounts payable	500
Increase in claims payable	<u>1,390,885</u>
Net cash provided by operating activities	<u>\$ 3,522,879</u>

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

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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 Lakewood City School District served as the Fiscal Agent for the period October 1, 2005 through November 1, 2005. Effective November 2, 2005, the North Royalton City School District (the "School District") became 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, 2006

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.

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.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

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.

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.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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

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 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.

D. Cash With Fiscal Agent

The Lakewood City School District served as the Fiscal Agent for the period October 1, 2005 through November 1, 2005 and the North Royalton City School District served as fiscal agent for the period November 2, 2005 through September 30, 2006. The North Royalton City School District, as the Consortium's current 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 and then pools remaining available cash of the Consortium with that of the School District for investment purposes. 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.

During 2006, investments of the Consortium were limited to federal agency securities and investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. These investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their fund for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on September 30, 2006.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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

For purposes of the statement of net assets, 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. 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 are disclosures required by GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

Investments Purchased by the Fiscal Agent specific to the Consortium

At September 30, 2006, the Consortium had the following investments purchased by the Fiscal Agent:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 1,993,965	\$ -	\$ 994,536	\$ -	\$ 999,429	\$ -
FHLMC-DN	996,899	996,899	-	-	-	-
FNMA-DN	987,441	987,441	-	-	-	-
	<u>\$ 3,978,305</u>	<u>\$ 1,984,340</u>	<u>\$ 994,536</u>	<u>\$ -</u>	<u>\$ 999,429</u>	<u>\$ -</u>

The weighted average maturity of investments is .78 years.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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

The following table includes the percentage of each investment type held by the Consortium at September 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,993,965	50.12
FHLMC-DN	996,899	25.06
FNMA-DN	987,441	24.82
	<u>\$ 3,978,305</u>	<u>100.00</u>

Pooled Monies Invested by the Fiscal Agent for the Consortium

During fiscal 2006, 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 District'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 School District.

During fiscal 2006, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. 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 and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The School District has no investment policy that would further limit its investment choices.

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

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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

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

Reconciliation to Statement of Net Assets

Investments purchased by Fiscal Agent specific to the Consortium	\$ 3,978,305
Pooled monies invested by the Fiscal Agent for the Consortium	<u>7,074,647</u>
Total	<u>\$11,052,952</u>

NOTE 4 - RISK MANAGEMENT

The Consortium is a jointly governed organization which acts as a government risk pool for health insurance for its 13 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 Caremark Rx, Inc. 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 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 Caremark Rx, Inc. which are the third party administrators.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

NOTE 4 - RISK MANAGEMENT - (Continued)

The claims liability of \$5,968,000 reported at September 30, 2006, 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 fiscal years ended September 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Claims payable at beginning of fiscal year	\$ <u>4,577,115</u>	\$ <u>4,447,698</u>
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	39,686,784	32,390,415
Increase (decrease) in claims expenses for insured events of the prior years	<u>(4,463,117)</u>	<u>(5,153,065)</u>
Total claims expenses	<u>35,223,667</u>	<u>27,237,350</u>
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	30,934,495	24,678,178
Claims expenses paid attributable to insured events of prior years	<u>2,898,287</u>	<u>2,429,755</u>
Total claims payments	<u>33,832,782</u>	<u>27,107,933</u>
Claims payable at end of fiscal year	<u>\$ 5,968,000</u>	<u>\$ 4,577,115</u>

NOTE 5 - LITIGATION

The Consortium is not party to any litigation.

REQUIRED SUPPLEMENTARY INFORMATION

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

FIVE-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 years ended September 30, 2006, 2005, 2004, and 2003 is as follows:

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

FIVE-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1. Premiums and investment income	N/A	\$ 27,809,120	\$ 30,368,945	\$ 30,514,315	\$ 40,693,917
2. Unallocated expenses	N/A	3,070,120	3,019,904	3,034,126	3,281,060
3. Estimated losses incurred and expense, end of year	N/A	27,282,271	33,816,857	32,390,415	39,686,784
4. Paid, cumulative as of:					
End of accident year	N/A	24,264,464	25,890,448	24,678,178	30,934,495
One year later	N/A	26,280,233	28,311,975	27,586,972	-
Two years later	N/A	26,288,461	28,295,521	-	-
Three 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
One year later	N/A	26,957,599	28,988,465	28,842,574	-
Two years later	N/A	26,632,926	28,397,861	-	-
Three years later	N/A	26,308,254	-	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	N/A	(974,017)	(5,418,996)	(3,547,841)	-

N/A - Information not available.



Julian & Grube, Inc.
Serving Ohio Local Governments

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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 (the "Consortium"), as of and for the fiscal year ended September 30, 2006, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated March 16, 2007. 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 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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Julian & Grube, Inc.
March 16, 2007



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 10, 2007**