

**GREAT LAKES COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2015***

AMY HENDRICKS, TREASURER



Dave Yost • Auditor of State

Board of Directors
Great Lakes Council of Governments
21620 Mastick Road, A
Fairview Park, Ohio 44126

We have reviewed the *Independent Auditor's Report* of the Great Lakes Council of Governments, Cuyahoga County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Great Lakes Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 10, 2015

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**GREAT LAKES COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Great Lakes Council of Governments
Cuyahoga County
21620 Mastick Road, A
Fairview Park, Ohio 44126

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Great Lakes Council of Governments, Cuyahoga County, Ohio, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Great Lakes Council of Governments' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Great Lakes Council of Governments' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Great Lakes Council of Governments' internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Great Lakes Council of Governments, Cuyahoga County, Ohio, as of June 30, 2015, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to the Management's Discussion & Analysis presented on pages 3 - 5 or the two-year loss development information on page 11 of the report, and accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of the Great Lakes Council of Governments' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Great Lakes Council of Governments' internal control over financial reporting and compliance.



Julian & Grube, Inc.
September 23, 2015

GREAT LAKES COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The management's discussion and analysis of the Great Lakes Council of Governments (the "Council") financial performance provides an overall review of the Council's financial activities for fiscal year 2015, within the limitations of the Council's cash basis of accounting. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the notes to the basic financial statements and cash-basis financial statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key Financial highlights for fiscal year 2015 are as follows:

- In total, net position was \$1,004,675 at June 30, 2015.
- The Council had operating cash receipts of \$13,463,609 for fiscal year 2015. The Council had operating cash disbursements of \$14,009,870 for fiscal year 2015.

Using these Cash-Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Council's cash basis of accounting. 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 Council's financial activities. The Statement of Net Position - Cash Basis and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position - Cash Basis provide information about the activities of the Council.

Reporting the Council Financial Activities

Statement of Net Position-Cash Basis and Statements of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position. These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The Statement of Net Cash Position - Cash Basis and Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Position - Cash Basis - answers this question.

These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the Council's net cash position and changes in that cash position on a cash basis. This change in net cash position is important because it tells the reader that, for the Council as a whole, the cash basis financial position of the Council has improved or diminished.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these cash-basis financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Council's net position totaled \$1,004,675.

GREAT LAKES COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The table below provides a summary of the Council's net cash position at June 30, 2015.

Statement of Net Position – Cash Basis

June 30, 2015

Assets

Equity in Pooled Cash	<u>\$1,004,675</u>
Total Assets	<u>\$1,004,675</u>

Net Position

Unrestricted	<u>\$1,004,675</u>
Total Net Position	<u>\$1,004,675</u>

The table below shows the changes in net cash position for the fiscal year 2015.

Changes in Net Cash Position

June 30, 2015

	2014	2015
<u>Operating Cash Receipts</u>		
Receipts From Member Districts	\$11,152,346	\$11,535,764
Stop-Loss Reimbursements	\$64,998	\$1,794,153
Pharmacy Rebates	\$108,540	\$128,403
Subrogation		5,289
Total Cash Receipts	\$11,325,884	\$13,463,609
<u>Operating Cash Disbursements</u>		
Claims	\$8,344,017	\$12,366,539
Administrative Fees	\$441,337	\$466,140
Stop-Loss Premium	\$535,675	\$646,277
Other Expenses	\$453,919	\$530,914
Total Cash Disbursements	\$9,774,948	\$14,009,870
Change in Cash Position	\$1,550,936	(\$546,261)
Net Cash Position at Beginning of Year	\$0	\$1,550,936
Net Cash Position at End of Year	<u>\$1,550,936</u>	<u>\$1,004,675</u>

GREAT LAKES COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Current Financial Related Activities

The Council is owned and operated by 3 school districts in Ohio. The Council's main source of receipts is premiums paid by the member school districts. The Council is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Council 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 Council Trustees and its Third Party Administrator, Mutual Health Services, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for Council members.

Establishing premiums that satisfy all claims, administration fees, and other expenses for the Council, in addition to enhancing the net cash position is important for the short-term and long-term interests of the Council. The most significant challenge facing the Council Trustees is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the participating districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 832 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 Trustees are faced with the unviable 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 business today, and is complicated by the fact that most of the School Districts in the Council must collectively bargain levels with the respective employee unions. Member School Districts may also have more than one plan design, depending on negotiated agreements. The challenge is set before the Council and its' Trustees, and the future looks better from the collective, as opposed to individual, view of the participating districts.

Contacting the Council's Financial Management

This financial report is designed to provide our member districts, citizens, and other interested parties with a general review of the Council's finances and to show the Council's accountability for the money it receives. If you have any questions about this report or need additional financial information contact: Ms. Amy Hendricks, Fiscal Officer, Great Lakes Council of Government, 21620 Masticle Road, A, Fairview Park, Ohio 44126.

GREAT LAKES COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015

Assets

Equity in pooled cash	<u>\$1,004,675</u>
Total Assets	<u><u>\$1,004,675</u></u>

Net Position

Unrestricted	<u>\$1,004,675</u>
Total net position	<u><u>\$1,004,675</u></u>

See accompanying notes to the basic financial statements.

GREAT LAKES COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN NET CASH POSITION-CASH BASIS
FOR FISCAL YEAR ENDED JUNE 30, 2015

Operating Cash Receipts:

Receipts from Member Districts	\$11,535,764
Stop-Loss Reimbursements	\$1,794,153
Pharmacy Rebates	\$128,403
Subrogation	\$5,289
Total Cash Receipts	<u>\$13,463,609</u>

Operating Cash Disbursements:

Claims	\$12,366,539
Administrative Fees Medical	\$396,053
Administrative Fees Pharmacy	\$20,473
Reinsurance Fee (HCR)	\$85,356
HRA/FSA Administrative Fees	\$49,614
Stop-Loss Premiums	\$646,277
Professional Fees	\$157,862
Benefit Admin System	\$57,632
Actuarial Services	\$7,517
Accounting Services	\$20,046
Fiscal Agent Fee	\$4,865
Wellness Services	\$188,998
Other Expenses	\$8,638
Total Cash Disbursements	<u>\$14,009,870</u>

Change in Cash Net Position -\$546,261

Net Cash Position at Beginning of Year \$1,550,936
Net Cash Position at End of Year \$1,004,675

See accompanying notes to the basic financial statements

GREAT LAKES COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2015

1. DESCRIPTION OF THE ENTITY

The Great Lakes Council of Governments, (the Council) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council is a claims-servicing pool as defined by Government Accounting Standards Board Statement No.10 as amended by GASB statement 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council-by-laws.

The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2015 there were three participating members of the Council.

The Council is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Council 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.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flow, resulting in a transfer of all risk. The Board of Directors annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made Under the Health Benefits Plan by covered persons which would not be paid aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Basis of Presentation

The Consortium's financial statements consist of a statement of net position – cash basis and statement of cash receipts, cash disbursements and changes in net cash position – cash basis.

B. Basis of Accounting

The Council's financial statements are prepared using the cash 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.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. The Council has no investments.

GREAT LAKES COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2015

D. Fund Accounting

The Council 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges; (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.

Operating cash receipts are those receipts that are generated directly from the primary activity of the Council. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the Council. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

E. Net Cash Position

Net cash position is reported as restricted when there are limitation imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Council had no restricted net cash position at fiscal year-end.

3. EQUITY IN POOLED CASH

The Council maintains a cash account. The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash at June 30 was as follows:

	<u>2015</u>
Demand Deposits	\$1,004,675

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

4. BUDGETARY ACTIVITY

The Council is not required to follow the budgetary process by law, but incorporated in the bylaws that on or before June 30, a written estimate shall be submitted to the Trustees of the program costs for the ensuing fiscal year and members' shares of those program costs.

5. RISK MANAGEMENT

The Council contracted with a third party administrator, Medical Mutual Services, LLC for the year ended June 30, 2015, to process and pay health benefit claims incurred by its members. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, and administrative charges. The Treasurer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Council members. If the members aggregate contributions less expenses cause it to have a negative cash balance, the Council shall direct the Fiscal Agent to promptly notify in writing each member of any additional funds necessary to correct the deficiency. Whereupon each Member shall appropriate (pursuant to Chapter 5705 of the Revised Code) the amount stated in that notice and remit the same to the Fiscal Agent within the time periods determined by the Council.

The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows The Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

GREAT LAKES COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2015

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in *Actuarial Standard of Practice No. 5 Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

A comparison of the Council's cash to the actuarially-measured liability as of June 30, 2015 as follows.

	<u>June 30, 2015</u>
Cash	\$1,004,675
Actuarial Liabilities	\$826,800

GREAT LAKES COUNCIL OF GOVERNMENTS

OTHER INFORMATION

FOR FISCAL YEAR ENDED JUNE 30, 2015

The following illustrates how the Council's cash receipts compared to related payments of claims and other cash disbursements made by the Council as of the end of the fiscal year June 30, 2015 and June 30, 2014

Premiums and Investment Income: This line represents the total fiscal years gross received premiums, investment income and other receipts.

Unallocated cash disbursements: The amount represents the total non-claim disbursements of the Council for the fiscal year including premiums, administrative fees, professional fees, and other miscellaneous cash disbursements.

Paid Claims: This amount represents the cumulative net amount of claims paid as of the end of the accident year.

The Council reports data on the cash basis of accounting. Premiums and other income are recorded when received and unallocated cash disbursements and claims are recorded when paid by the Council. A claims liability is not recorded under the Council's cash basis of accounting. The Council became self-insured on July 1, 2013. Therefore, there is no data prior to 2014 to show.

Loss reserve development information for the fiscal years ending June 30, 2014 and June 30, 2015 is as follows:

	<u>2014</u>	<u>2015</u>
Premiums and Investment Income	11,152,346	11,535,764
Unallocated cash disbursements	1,430,931	1,643,331
Paid Cummulative as of:		
End of Accident Year	8,344,017	11,306,450
One Year Later	9,404,106	



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Great Lakes Council of Governments
Cuyahoga County
21620 Mastick Road, A
Fairview Park, Ohio 44126

To the Board of Directors:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Great Lakes Council of Governments, Cuyahoga County, Ohio as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Great Lakes Council of Governments' basic financial statements and have issued our report thereon dated September 23, 2015, wherein we noted the Great Lakes Council of Governments uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Great Lakes Council of Governments' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Great Lakes Council of Governments' internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Great Lakes Council of Governments' financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Great Lakes Council of Governments

Compliance and Other Matters

As part of reasonably assuring whether the Great Lakes Council of Governments' financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Great Lakes Council of Governments' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Great Lakes Council of Governments' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Julian & Grube, Inc.
September 23, 2015



Dave Yost • Auditor of State

GREAT LAKES COUNCIL OF GOVERNMENTS

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
DECEMBER 22, 2015**