

**GREAT LAKES COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2019*

OHIO AUDITOR OF STATE
KEITH FABER



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Members of the Assembly
Great Lakes Council of Governments
26937 Bagley Road
Olmsted Falls, Ohio 44138

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, 2018 through June 30, 2019. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 21, 2020

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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
26937 Bagley Road
Olmsted Falls, Ohio 44138

To the Members of the Assembly:

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, 2019, 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 accounting principles generally accepted in the United States of America; this includes 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 such 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 financial position of the Great Lakes Council of Governments, Cuyahoga County, Ohio, as of June 30, 2019, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and five-year loss development information, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2019, 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.
December 26, 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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 the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Council'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 Council's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- In total, net position was \$2,901,357 at June 30, 2019. This represents a decrease of \$327,845 from June 30, 2019.
- The Council had operating revenues of \$16,020,827, operating expenses of \$16,415,564, and nonoperating revenues of \$66,892 for fiscal year 2019.

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 Council's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Council, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Council.

Reporting the Council Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2019?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Council's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Council as a whole, the *financial position* of the Council has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Council's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the Council 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 10-16 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Required Supplementary Information

Four years of loss development information can be found on pages 17-18 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Council's net position for fiscal year 2019 and 2018.

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash	\$ 4,466,363	\$ 4,507,159
Total assets	<u>4,466,363</u>	<u>4,507,159</u>
<u>Liabilities:</u>		
Claims payable	<u>1,565,006</u>	<u>1,277,957</u>
Total liabilities	<u>1,565,006</u>	<u>1,277,957</u>
<u>Net Position:</u>		
Unrestricted	<u>\$ 2,901,357</u>	<u>\$ 3,229,202</u>

The assets of the Council are comprised of cash and cash equivalents. The Council established premiums at a level to build reserves should claims payments fluctuate in a given year. The Council will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

The liability for claims payable is calculated by the Council's independent actuary and estimates the claims incurred and due at June 30, 2019. This amount is reflected net of stop-loss reimbursements due to the Council at June 30, 2019.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The table below shows the changes in net position for fiscal year 2019 and 2018.

Change in Net Position

	<u>2019</u>	<u>2018</u>
<u>Operating revenues:</u>		
Medical premiums from member districts	\$ 14,826,844	\$ 14,008,498
Stop-loss premium	694,412	643,533
Pharmacy rebates	<u>499,571</u>	<u>330,918</u>
Total operating revenues	<u>16,020,827</u>	<u>14,982,949</u>
<u>Operating expenses:</u>		
Claims	14,680,504	11,416,050
Administrative fees	875,867	929,256
Stop-loss premiums	716,687	604,217
Wellness services and fees	105,488	64,002
Fiscal agent fees	16,341	37,848
Miscellaneous fees	<u>20,677</u>	<u>70,597</u>
Total operating expenses	<u>16,415,564</u>	<u>13,121,970</u>
Operating income (loss)	(394,737)	1,860,979
<u>Nonoperating revenues:</u>		
Interest	62,027	6,015
Other nonoperating revenues	<u>4,865</u>	<u>49,070</u>
Total nonoperating revenues	<u>66,892</u>	<u>55,085</u>
Change in net position	<u>(327,845)</u>	<u>1,916,064</u>
Net position, July 1	<u>3,229,202</u>	<u>1,313,138</u>
Net position, June 30	<u>\$ 2,901,357</u>	<u>\$ 3,229,202</u>

Operating expenses exceeded member contributions in fiscal year 2019. Sufficient participant contributions are required to ensure that the Council meets increasing claims expenses. The Council reported \$62,027 in interest during fiscal year 2019, as a result of investing in a money market account.

Claims expense represents 89.43% and 87.00% of all expenses for fiscal years 2019 and 2018, respectively. The Council aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 91.63% of total fiscal year 2019 operating revenues. The Council uses Medical Mutual and Express Scripts Holding Company as its third-party administrators for the medical, pharmacy and vision plans. Administrative fees are paid to the Council's administrative agent. The Council \$16,341 in fiscal agent fees during fiscal year 2019. The expenses of the Council's wellness program increased \$41,486 during fiscal year 2019. The wellness program began in fiscal year 2018. Miscellaneous fees include audit fees and liability insurance.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Current Financial Related Activities

The Council is owned and operated by 3 school districts in Ohio. In fiscal year 2020, two new members will be joining the Council. The Council's main source of revenue 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, Medical Mutual of Ohio, 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 position is important for the short-term and long-term interests of the Council. The most significant challenge facing the Board of Directors 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 1,632 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 of Directors 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 Board of Directors, 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: Mrs. Emily C. Weisbarth, Fiscal Officer, Great Lakes Council of Governments, 26937 Bagley Road, Olmstead Falls, Ohio 44138, or email at eweisbarth@ofcs.net.

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

STATEMENT OF NET POSITION
JUNE 30, 2019

Assets:	
Cash and cash equivalents	\$ 4,466,363
Total assets	<u>4,466,363</u>
Liabilities:	
Claims payable	<u>1,565,006</u>
Total current liabilities	<u>1,565,006</u>
Net position:	
Unrestricted	<u>2,901,357</u>
Total net position	<u>\$ 2,901,357</u>

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

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Operating revenues:	
Medical premiums from member districts.	\$ 14,826,844
Stop-loss premium.	694,412
Pharmacy rebates	499,571
Total operating revenues	<u>16,020,827</u>
Operating expenses:	
Claims	14,680,504
Administrative fees	875,867
Stop-loss premiums	716,687
Wellness services and fees	105,488
Fiscal agent fees	16,341
Miscellaneous fees	20,677
Total operating expenses	<u>16,415,564</u>
Operating loss.	<u>(394,737)</u>
Nonoperating revenues:	
Investment income	62,027
Other nonoperating revenues.	4,865
	<u>66,892</u>
Change in net position	(327,845)
Net position at beginning of year	<u>3,229,202</u>
Net position at end of year	<u><u>\$ 2,901,357</u></u>

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

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Cash received from medical premiums from member districts	\$ 14,826,844
Cash received from stop-loss premium	694,412
Cash received from pharmacy rebates	499,571
Cash payments for claims.	(14,393,455)
Cash payments for administrative fees	(875,867)
Cash payments for stop-loss premiums	(716,687)
Cash payments for wellness services and fees	(105,488)
Cash payments for fiscal agent fees	(16,341)
Cash payments for miscellaneous fees	(20,677)
Net cash used in operating activities	<u>(107,688)</u>
Cash flows from non-capital financing activities:	
Other nonoperating income	<u>4,865</u>
Net cash provided by non-capital financing activities.	<u>4,865</u>
Cash flows from investing activities:	
Interest income	<u>62,027</u>
Net cash provided by investing activities.	<u>62,027</u>
Net decrease in cash	(40,796)
Cash and cash equivalents at beginning of year.	<u>4,507,159</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,466,363</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (394,737)
Changes in assets and liabilities:	
Increase in claims payable	<u>287,049</u>
Net cash used in operating activities	<u><u>\$ (107,688)</u></u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 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 (GASB) Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" as amended by GASB Statement No. 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, 2019, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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 Council are not misleading. On this basis, no governmental organizations other than the Council itself are included in the financial reporting entity.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

B. Fund Accounting

The Council 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 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 or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

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

For financial statement presentation purposes, the Council 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 Council’s activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Council’s operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The Council distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage, pharmacy rebates and stop loss insurance premiums. Operating expenses for the Council include the payment of claims, administrative fees, stop-loss premiums, wellness services and fees, fiscal agent fees, and miscellaneous fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

Cash received by the Council is reflected as “cash and cash equivalents” on the statement of net position. Unless otherwise noted, all monies received by the Council are pooled as demand deposits. During fiscal year 2019, the Council had investments in a money market account.

An analysis of the Council’s deposits and investments at fiscal year-end is provided in Note 3.

E. Budgetary Process

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

F. Net Position

Net position is reported as restricted when there are limitations 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 position at fiscal year-end.

G. 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.

H. Fair Value Measurements

The Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Council into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Council Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio; and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance (for a period not to exceed one-hundred eighty days) and commercial paper notes (for a period not to exceed two-hundred-seventy days) in an amount not to exceed forty percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited.

The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Council and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Fiscal Officer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

A. Deposits Held in Financial Institutions

At June 30, 2019, the carrying amount and the bank value of the Council's deposits was \$1,419,321. Of the bank balance, \$250,000 was covered by the FDIC and \$584,660 was covered by the Ohio Pooled Collateral System (OPCS) and \$584,661 was exposed to custodial risk.

Custodial credit risk is the risk that, in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Council has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Council and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the Council’s financial institution was approved for a reduced collateral rate of 50 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Council to a successful claim by the FDIC.

B. Investments

The Council had the following investment outstanding at June 30, 2019.

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturity 6 months or less</u>
<i>Fair Value:</i>		
Money Market Account	<u>\$ 3,047,042</u>	<u>\$ 3,047,042</u>

The Council’s investment in the money market account is valued using quoted market prices in active markets (Level 1 inputs).

Disclosures regarding investments of the Council are as follows:

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Council limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: The Council’s investment in the money market account were not rated but are fully insured by the FDIC. The Council’s investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

NOTE 4 - RISK MANAGEMENT

The Council contracted with a third-party administrator, Medical Mutual of Ohio, Inc. for the fiscal year ended June 30, 2019, to process and pay health benefit claims incurred by its members. Similarly, the Council has contracted with Express Scripts Holding Company for processing claims for prescription drug benefits. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, prescription drug premiums, vision 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - RISK MANAGEMENT - (Continued)

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.

The claims liability of \$1,565,006 reported at June 30, 2019, reported net of stop-loss reimbursements due to the Council of \$30,264, is based on an actuarial estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the fiscal years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Claims payable at beginning of fiscal year	\$ 1,277,957	\$ 1,259,452
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	14,807,315	12,480,980
(Decrease) in claims expenses for insured events of the prior years	(126,811)	(1,064,930)
Total claims expenses	14,680,504	11,416,050
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	12,408,630	10,369,344
Claims expenses paid attributable to insured events of prior years	1,984,825	1,028,201
Total claims payments	14,393,455	11,397,545
Claims payable at end of fiscal year	\$ 1,565,006	\$ 1,277,957

NOTE 5 - LITIGATION

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

NOTE 6 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2019, the Council has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Council.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 6 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Council.

NOTE 7 - SIGNIFICANT SUBSEQUENT EVENTS

Berea City School District and Strongsville City School District joined the Council as new members in fiscal year 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

**GREAT LAKES COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
FIVE-YEAR LOSS DEVELOPMENT INFORMATION**

The following table illustrates how the Council's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Council 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 Council including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Council'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. Loss development information prior to fiscal year 2015 is not available.

**GREAT LAKES COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
FIVE-YEAR LOSS DEVELOPMENT INFORMATION ⁽¹⁾ (CONTINUED)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
1. Premiums and investment income ⁽²⁾	\$ 11,535,764	\$ 12,423,230	\$ 13,509,656	\$ 14,014,513	\$ 14,888,871
2. Unallocated expenses ⁽²⁾	1,643,331	1,361,764	1,445,536	1,705,920	1,735,060
3. Estimated losses incurred and expense, end of year	12,855,719	12,284,397	13,159,649	12,480,980	14,807,315
4. Paid, cumulative as of:					
End of accident year	11,078,540	10,094,214	11,066,518	10,369,344	12,408,630
One year later	12,028,919	11,074,964	12,094,719	12,354,169	-
Two years later	12,028,919	11,074,964	12,094,719	-	-
Three years later	12,028,919	11,074,964	-	-	-
Four years later	12,028,919	-	-	-	-
5. Re-estimated incurred losses and expense:					
End of accident year	12,855,719	12,284,397	13,159,649	12,480,980	14,807,315
One year later	12,028,919	11,074,964	12,094,719	12,354,169	-
Two years later	12,028,919	11,074,964	12,094,719	-	-
Three years later	12,028,919	11,074,964	-	-	-
Four years later	12,028,919	-	-	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	(826,800)	(1,209,433)	(1,064,930)	(126,811)	-

Notes:

⁽¹⁾ Information prior to fiscal year 2015 is not available. This schedule is intended to show information for ten years. Additional information will be displayed as it becomes available.

⁽²⁾ Information for 2015 and 2016 presented on the cash-basis of accounting.

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

Great Lakes Council of Governments
Cuyahoga County
26937 Bagley Road
Olmsted Falls, Ohio 44138

To the Members of the Assembly:

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, 2019, 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 December 26, 2019.

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.

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 report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.
December 26, 2019

OHIO AUDITOR OF STATE KEITH FABER



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
MARCH 19, 2020**