

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

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017*

**AMY HENDRICKS, TREASURER**





# Dave Yost • Auditor of State

Members of the Assembly  
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, 2016 through June 30, 2017. 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

February 6 2018

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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 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, 2017, 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 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 financial position of the Great Lakes Council of Governments, Cuyahoga County, Ohio, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 6 to the financial statements, during the fiscal year ended June 30, 2017, the Great Lakes Council of Governments changed the presentation of its annual financial report from the cash-basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.

***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 Three-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 12, 2017, 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 12, 2017



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

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, 2017. 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 2017 are as follows:

- The Council has prepared, for the first time, financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The restatement to net cash position as previously reported at June 30, 2016 is described in Note 7.
- In total, net position was \$1,313,138 at June 30, 2017. This represents an increase of \$763,649 from June 30, 2016 (as restated - see Note 7).
- The Council had operating revenues of \$14,159,401 and operating expenses of \$13,395,752 for fiscal year 2017.

**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 2017?" 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

*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 10-14 of this report.

*Required Supplementary Information*

Three years of loss development information can be found on pages 15-16 of this report.

**Net Position and Changes in Net Position**

The table below provides a summary of the Council's net position for 2017. This is the Council's first year for using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

<b>Net Position</b>	
	<u>2017</u>
<b><u>Assets</u></b>	
Cash	\$ 2,611,268
Total assets	<u>2,611,268</u>
<b><u>Liabilities:</u></b>	
Accounts payable	38,678
Claims payable	<u>1,259,452</u>
Total liabilities	<u>1,298,130</u>
<b><u>Net Position:</u></b>	
Unrestricted	<u>\$ 1,313,138</u>

The assets of the Council are comprised of cash. 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, 2017. This amount is reflected net of stop-loss reimbursements due to the Council at June 30, 2017. Accounts payable has been reported for administrative fees due at June 30, 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The table below shows the changes in net position for fiscal year 2017. This is the Council's first year for using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

**Change in Net Position**

	2017
<u>Operating revenues:</u>	
Medical premiums from member districts	\$ 13,509,656
Stop-loss premium	578,143
Pharmacy rebates	71,602
Total operating revenues	14,159,401
<u>Operating expenses:</u>	
Claims	11,950,216
Administrative fees	553,108
Stop-loss premiums	846,015
Reinsurance fees	43,940
Wellness services and fees	648
Miscellaneous fees	1,825
Total operating expenses	13,395,752
Operating income/change in net position	763,649
Net position, July 1 (restated)	549,489
Net position, June 30	\$ 1,313,138

Member contributions revenue exceeded operating expenses in fiscal year 2017. Sufficient participant contributions are required to ensure that the Council meets increasing claims expenses.

Claims expense represents 89.21% of all expenses. The Council aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 84.40% of total fiscal year 2017 operating revenues. The Council uses Medical Mutual of Ohio, Inc. as its third party administrator for the medical, pharmacy and vision plans.

**Current Financial Related Activities**

The Council is owned and operated by 3 school districts in Ohio. 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 Members of Assembly 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

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 Members of Assembly 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 Members of Assembly 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 Members of Assembly, 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 Mastick Road, A, Fairview Park, Ohio 44126.

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

STATEMENT OF NET POSITION  
JUNE 30, 2017

<b>Assets:</b>	
Cash . . . . .	\$ 2,611,268
Total assets . . . . .	<u>2,611,268</u>
<b>Liabilities:</b>	
Accounts payable . . . . .	38,678
Claims payable . . . . .	<u>1,259,452</u>
Total current liabilities . . . . .	<u>1,298,130</u>
<b>Net position:</b>	
Unrestricted . . . . .	<u>1,313,138</u>
Total net position . . . . .	<u>\$ 1,313,138</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, 2017

<b>Operating revenues:</b>	
Medical premiums from member districts. . . . .	\$ 13,509,656
Stop-loss premium. . . . .	578,143
Pharmacy rebates . . . . .	<u>71,602</u>
 Total operating revenues . . . . .	 <u>14,159,401</u>
<b>Operating expenses:</b>	
Claims . . . . .	11,950,216
Administrative fees . . . . .	553,108
Stop-loss premiums . . . . .	846,015
Reinsurance fees . . . . .	43,940
Wellness services and fees . . . . .	648
Miscellaneous fees . . . . .	<u>1,825</u>
 Total operating expenses . . . . .	 <u>13,395,752</u>
 Operating income/change in net position . . . . .	 763,649
 <b>Net position at beginning of year (restated). . . . .</b>	 <u>549,489</u>
 <b>Net position at end of year . . . . .</b>	 <u><u>\$ 1,313,138</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, 2017**

<b>Cash flows from operating activities:</b>	
Cash received from medical premiums from member districts . . . . .	\$ 13,509,656
Cash received from stop-loss premium . . . . .	578,143
Cash received from pharmacy rebates . . . . .	71,602
Cash payments for claims. . . . .	(12,047,268)
Cash payments for administrative fees . . . . .	(552,622)
Cash payments for stop-loss premiums . . . . .	(846,015)
Cash payments for reinsurance fees . . . . .	(43,940)
Cash payments for wellness services and fees . . . . .	(648)
Cash payments for miscellaneous fees . . . . .	<u>(1,825)</u>
Net cash provided by operating activities. . . . .	<u>667,083</u>
Net increase in cash . . . . .	667,083
<b>Cash at beginning of year. . . . .</b>	<u>1,944,185</u>
<b>Cash at end of year . . . . .</b>	<u><u>\$ 2,611,268</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 763,649
Changes in assets and liabilities:	
Increase in accounts payable . . . . .	486
(Decrease) in claims payable . . . . .	<u>(97,052)</u>
<b>Net cash provided by operating activities . . . . .</b>	<u><u>\$ 667,083</u></u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**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, 2017, 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, 2017

**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 and stop loss insurance premiums. Operating expenses for the Council include the payment of claims, administrative fees, stop-loss premiums, reinsurance fees, wellness services and fees, and miscellaneous fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Cash**

Cash received by the Council is reflected as “cash” on the statement of net position. Unless otherwise noted, all monies received by the Council are pooled and deposited in a central bank account as demand deposits. The Council had no investments during fiscal year 2017.

An analysis of the Council’s deposits 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, 2017

**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.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**A. Deposits Held in Financial Institutions**

At June 30, 2017, the carrying amount and the bank balance of the Council's deposits held in financial institutions was \$2,611,268. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$2,361,268 of the Council's deposits bank balance of \$2,611,268 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Council'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 Council. The Council has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Council to a successful claim by the FDIC.

**B. Investments**

The Council had no investments outstanding at June 30, 2017.

**NOTE 4 - RISK MANAGEMENT**

The Council contracted with a third party administrator, Medical Mutual of Ohio, Inc. for the year ended June 30, 2017, 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 administrator 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, 2017

**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 \$1,259,452 reported at June 30, 2017, reported net of stop-loss reimbursements due to the Council of \$26,722, 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, 2017 and 2016 were as follows:

	2017	2016
Claims payable at beginning of fiscal year	\$ 1,356,504	\$ 826,800
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	13,159,649	12,284,397
(Decrease) in claims expenses for insured events of the prior years	(1,209,433)	(710,100)
Total claims expenses	11,950,216	11,574,297
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	11,066,518	10,094,214
Claims expenses paid attributable to insured events of prior years	980,750	950,379
Total claims payments	12,047,268	11,044,593
Claims payable at end of fiscal year	\$ 1,259,452	\$ 1,356,504

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**NOTE 6 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For the fiscal year ended June 30, 2017, the Council has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the Council has converted its enterprise fund to the accrual basis of accounting.

*Accrual Basis Adjustments* - the conversion of the activities from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at June 30, 2016 to the net cash position as previously reported to reflect the prior year's effect of adopting these new accounting principles.

The restatement to the June 30, 2016 net cash position for the Council follows:

Net cash position, June 30, 2016	\$ 1,944,185
Accrual basis adjustments:	
Accounts payable	(38,192)
Claims payable	<u>(1,356,504)</u>
Restated net position, July 1, 2016	<u><u>\$ 549,489</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

**THREE-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**

**THREE-YEAR LOSS DEVELOPMENT INFORMATION <sup>(1)</sup> (CONTINUED)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>1. Premiums and investment income <sup>(2)</sup></b>	\$ 11,535,764	\$ 12,423,230	\$ 13,509,656
<b>2. Unallocated expenses <sup>(2)</sup></b>	1,643,331	1,361,764	1,445,536
<b>3. Estimated losses incurred and expense, end of year</b>	12,855,719	12,284,397	13,159,649
<b>4. Paid, cumulative as of:</b>			
End of accident year	11,078,540	10,094,214	11,066,518
One year later	12,028,919	11,074,964	-
Two years later	12,028,919	-	-
<b>5. Re-estimated incurred losses and expense:</b>			
End of accident year	12,855,719	12,284,397	13,159,649
One year later	12,028,919	11,074,964	-
Two years later	12,028,919	-	-
<b>6. Decrease in estimated incurred losses and expenses from end of accident year</b>	(826,800)	(1,209,433)	-

Notes:

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 Auditing Standards***

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

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, as of and for the fiscal year ended June 30, 2017, 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 12, 2017, wherein we noted, as described in Note 6 to the basic financial statements, the Great Lakes Council of Governments changed the presentation of its annual financial report from the cash-basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America.

***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.

Members of the Assembly  
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 report is not suitable for any other purpose.

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

Julian & Grube, Inc.  
December 12, 2017

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# 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  
FEBRUARY 20, 2018**