

GOVERNMENT INSURANCE NETWORK

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2019

GOVERNMENT INSURANCE NETWORK

TABLE OF CONTENTS

PAGE

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1 - 2
-------------------------------------	-------

BASIC FINANCIAL STATEMENTS

Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11

OTHER SUPPLEMENTARY INFORMATION

Schedule of Detailed Expenses - Operationg - Budget and Actual	12
--	----

SUPPLEMENTAL SCHEDULE

Schedule of Changes in Net Position - by Individual Members - Medical, Vision and Dental	13
--	----

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

September 3, 2019

Government Insurance Network
Board of Directors
Chicago, Illinois

We have audited the accompanying financial statements of the Government Insurance Network (GIN), Illinois, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the GIN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the GIN's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GIN's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government Insurance Network, Illinois, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with 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 that the management's discussion and analysis as listed in the table of contents and budgetary information reported in the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government Insurance Network, Illinois' basic financial statements. The budgetary comparison schedule and supplemental schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule and supplemental schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and supplemental schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

GIN has not presented a Management's Discussion and Analysis as required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Lauterbach & Amen, LLP
LAUTERBACH & AMEN, LLP

FINANCIAL STATEMENTS

GOVERNMENT INSURANCE NETWORK

Statement of Net Position June 30, 2019

ASSETS	
Current Assets	
Cash and Investments	\$ 3,483,717
Accounts Receivable - Net of Allowances	
Member Contributions	331,816
Prepays	<u>16,401</u>
Total Assets	<u>3,831,934</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	1,056,758
Claims Payable	851,321
Due to Other Governments	<u>1,923,855</u>
Total Liabilities	<u>3,831,934</u>
NET POSITION	
Unrestricted	<u><u>-</u></u>

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

GOVERNMENT INSURANCE NETWORK

Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2019

Operating Revenues	
Premium Contributions	\$ 15,654,176
Other Income	100,000
Total Operating Revenues	<u>15,754,176</u>
Operating Expenses	
Provision for Claims	11,725,869
Stop-Loss Premiums - Specific	51,440
Vison Insurance	94,440
Life and AD & D	289,087
Liability Insurance	16,408
Legal Fees	15,846
Broker Consulting Service and Administration	271,762
BCBS Administration Fees	3,306,758
Supplies and Postage	48
Member Equity Allocation	47,713
Total Operating Expenses	<u>15,819,371</u>
Operating (Loss)	(65,195)
Nonoperating Revenues	
Interest Income	<u>63,226</u>
Changes in Net Position	(1,969)
Net Position - Beginning	<u>1,969</u>
Net Position - Ending	<u><u>-</u></u>

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

GOVERNMENT INSURANCE NETWORK

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2019

Cash Flows from Operating Activities	
Receipts from Members	\$ 15,405,959
Payments to Suppliers	(11,985,468)
	<u>3,420,491</u>
Cash Flows from Investing Activities	
Interest Income	<u>63,226</u>
Net Change in Cash and Cash Equivalents	3,483,717
Cash and Cash Equivalents	
Beginning	<u>-</u>
Ending	<u><u>3,483,717</u></u>
Reconciliation of Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Operating Income (Loss)	(65,195)
Adjustments to Reconcile Operating	
Income to Net Income to Net Cash	
Provided by (Used In) Operating Activities:	
(Increase) Decrease in Current Assets	(348,217)
Increase (Decrease) in Current Liabilities	<u>3,833,903</u>
Net Cash Provided by Operating Activities	<u><u>3,420,491</u></u>

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

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Government Insurance Network (the GIN) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the GIN's accounting policies are described below.

REPORTING ENTITY

The GIN is a joint insurance pool organized to provide health, life, dental and vision care benefits to employees of its member organizations. The GIN was organized May 15, 2018 under the authority of Article VII, Section 10 of the Constitution of the State of Illinois and the Illinois Governmental Cooperation Act (5 ILCS 220/1 et. seq.). At year-end, membership consists of the following Illinois municipalities and governmental entities:

City of Elmhurst
Village of Frankfort
Village of Lemont
Village of New Lenox
Village of Romeoville
Village of Shorewood
Village of Westmont

The purpose of the GIN is to administer certain employee benefit programs offered by the members to eligible employees, employees' dependents, and retirees and the officers and employees of other governmental entities and the quasi-governmental, and non-profit public service entities with which some or all members have separately arranged to list ("Listed Entities"), and the Board of Directors has approved, as if such officers and employees were employed by the member pursuant to a group plan (the "Plan"). Each member remains individually responsible for any and all benefit programs that are not a part of any network plan. Membership in GIN is not transferable or assignable.

The intent of the parties is to separately establish benefit programs and to utilize the GIN to achieve reduced costs of administration and insurance purchases by providing similar services to all members and to require members to pay for the costs of such benefits or to share such costs in the manner from time-to-time established by the Board of Directors.

The organization is managed by the GIN Board consisting of one representative designated by each member.

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION

Basic Financial Statements

In the Statement of Net Position, the GIN's activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The GIN's Statement of Revenues, Expenses and Changes in Net Position is reported as unrestricted net position.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement Focus

All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income (loss), changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The GIN's basic financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Contributions from members are recognized as revenue each month as contributions are due. Claims and expenses are recorded in the period in which they are deemed to have occurred. A provision is recorded for the estimated claims incurred but not yet reported or paid.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the GIN are member contributions. Operating expenses for the GIN include the cost of insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Those revenues susceptible to accrual are member contributions and carrier invoices which include stop-loss adjustments.

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET POSITION

Cash and Investments

For the purpose of the Statement of Net Position, the cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of purchase.

Investments are generally reported at fair value. Short-term investments are reported at cost, which approximates fair value. For investments, the GIN 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. At June 30, 2019, the GIN has no investments.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both the government-wide and fund financial statements. Prepaids are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type prepaids are recorded as expenditures when consumed rather than when purchased.

Receivables

In the Statement of Net Position, receivables consist of all revenues earned at year-end and not yet received. Member contributions represent the major receivable for the GIN.

Claims Payable

Claims liabilities are established based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts recoverable on unpaid claims are deducted from the claim expenses for unpaid claims. No provision for inflation or for present value is provided, as a majority of claims are generally settled within one year. The claims incurred but not recorded expense on insurance is based on twelve months of claims reported on the Claims Analysis Report provided by the insurance provider.

Reinsurance

The GIN utilizes reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses, although it does not discharge the GIN's liability as direct insurer of the risks reinsured. Reinsured risks are reported as liabilities.

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with generally accepted accounting principles. The GIN Board adopts an annual budget prior to July 1 for the following fiscal year. The final annual budget is adopted by July 1. The GIN Board may amend the annual budget at any time in the same manner as provided for passage of the annual budget.

EXCESS OF ACTUAL EXPENSES OVER BUDGET IN INDIVIDUAL FUNDS

The Operations Fund had an excess of \$644,834 of actual expenses over budget as of the date of this report.

NOTE 3 – DETAIL NOTES ON THE FINANCIAL STATEMENTS

DEPOSITS AND INVESTMENTS

Permitted Deposits and Investments – Statutes authorize the GIN to make deposits/invest in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, obligations of States and their political subdivisions, credit union shares, repurchase agreements, and commercial paper rated within the three highest classifications by at least two standard rating services.

Interest Rate Risk, Credit Risk, Custodial Credit Risk and Concentration Risk

Deposits. At year-end, the carrying amount of the GIN's deposits totaled \$3,483,717 and the bank balances totaled \$3,483,717.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The GIN's investment policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GIN's investment policy minimizes credit risk by diversifying investments by maturity, issuer, and class of security so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 3 – DETAIL NOTES ON THE FINANCIAL STATEMENTS – Continued

DEPOSITS AND INVESTMENTS – Continued

Interest Rate Risk, Credit Risk, Custodial Credit Risk and Concentration Risk – Continued

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of bank failure, the GIN's deposits may not be returned to it. The GIN's investment policy states that full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposits. At year-end, the entire amount of the bank balance of the deposits was covered by federal depository or equivalent insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the GIN will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The GIN does not have a formal investment policy with regards to custodial credit risk for investments.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of the GIN's investment in a single issuer. The GIN's investment policy eliminates the risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities. At year-end, the GIN's investment in the Max Safe Fund represents 100.00% of the GIN's total cash and cash equivalents.

CLAIMS PAYABLE

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include a number of claims that have been incurred but not reported (IBNR). Claims liabilities are established based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported.

Changes in the balances of claims liabilities are as follows:

	Medical and Vision
Claims Payable - Beginning	\$ -
Claims Incurred	12,267,487
Claims Paid	<u>(11,416,166)</u>
Claims Payable - Ending	<u>851,321</u>

GOVERNMENT INSURANCE NETWORK

Notes to the Financial Statements June 30, 2019

NOTE 4 – OTHER INFORMATION

CONTINGENT LIABILITIES

Litigation

The GIN is not currently involved in any lawsuits.

Contractual Agreements

The GIN contracts for Claims Administration, Plan Consulting, Pharmacy Benefit Management and similar services with a variety of service providers. Generally, these contracts provide for fees based on enrollment and remain in effect for one year. Often, such contracts are terminable as specified in each individual agreement. At year end, all fees due have been paid.

OTHER SUPPLEMENTARY INFORMATION

GOVERNMENT INSURANCE NETWORK

Operations - Enterprise Fund

Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual

For the Fiscal Year Ended June 30, 2019

	Budget		Actual
	Original	Final	
Operating Revenues			
Premium Contributions	\$ 15,176,899	15,176,899	15,654,176
Cobra Contributions	5,940	5,940	-
Other Income	-	-	100,000
Total Operating Revenues	15,182,839	15,182,839	15,754,176
Operating Expenses			
Provision for Claims			
Claims Incurred and Paid During the Year	11,457,410	11,457,410	11,416,166
Claims Incurred but Paid Subsequently	-	-	851,321
Stop-Loss Reimbursements	-	-	(541,618)
Net Provision for Claims	11,457,410	11,457,410	11,725,869
Stop-Loss Premiums - Specific	48,899	48,899	51,440
Vison Insurance	73,000	73,000	94,440
Life and AD & D	155,000	155,000	289,087
COBRA Service	5,940	5,940	-
Liability Insurance	20,000	20,000	16,408
Legal Fees	20,000	20,000	15,846
Audit Fees	15,000	15,000	-
Broker Consulting Service and Administration	204,546	204,546	271,762
BCBS Administration Fees	3,172,242	3,172,242	3,306,758
Supplies and Postage	2,500	2,500	48
Member Equity Allocation	-	-	47,713
Total Operating Expenses	15,174,537	15,174,537	15,819,371
Operating Income	8,302	8,302	(65,195)
Nonoperating Revenues			
Interest Income	25,000	25,000	63,226
Changes in Net Position	33,302	33,302	(1,969)
Net Position - Beginning			1,969
Net Position - Ending			-

SUPPLEMENTAL SCHEDULE

GOVERNMENT INSURANCE NETWORK

Schedule of Changes in Net Position - by Individual Members - Medical, Vision and Dental For the Fiscal Year Ended June 30, 2019

	Annual Premiums	Member Proportionate Share of Total Premiums (%)	Member Proportionate Share of Total Capital (\$)
Elmhurst	\$ 3,885,960	24.82%	\$ 11,844
Frankfort	1,512,929	9.66%	4,611
Lemont	1,108,268	7.08%	3,378
New Lenox	2,244,828	14.34%	6,842
Romeoville	3,952,814	25.25%	12,048
Shorewood	945,146	6.04%	2,881
Westmont	2,004,231	12.80%	6,109
Totals	15,654,176	100.00%	47,713