



Michigan Municipal Services Authority

PO BOX 12012, LANSING MI 48901-2012

**AUTHORITY BOARD
REGULAR MEETING**

Thursday, March 14, 2019 at 1:30 p.m.

Capitol View Building
201 Townsend St Suite 900
Lansing, MI 48933

AGENDA

- I. Call to Order**
- II. Roll Call**
- III. Approval of Agenda**
- IV. Approval of Minutes**
 - a. Minutes of the November 8, 2018 regular Authority Board meeting
- V. Administrative Report**
- VI. Audits**
 - a. Resolution 2019-A Approval of Audit for Fiscal Year 2017-2018
- VII. New Business**
- VIII. Public Comment**
- IX. Other Business**
- X. Adjournment**

A copy of the proposed minutes of the meeting will be available for public inspection at the principal office of the Authority within 8 business days. A copy of the approved minutes of the meeting, including any corrections, will be available for public inspection at the principal office of the Authority within 5 business days after approval.



Michigan Municipal Services Authority

AUTHORITY BOARD

Thursday, November 8, 2018 at 1:30 p.m.

Capitol View Building
Constitution Room – 9th Floor
201 Townsend Street
Lansing, MI 48933

MINUTES

Proposed Minutes Approved Minutes

MEETING TYPE: Regular Special

I. Call to Order

The meeting was called to order at 1:37 p.m. by the Chairperson.

II. Roll Call

Authority Board Member Attendance:

Stacie Behler, Chairperson	<input type="checkbox"/> Present	<input checked="" type="checkbox"/> Absent
Dominick Pallone, Vice-Chairperson	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
James Cambridge, Secretary*	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
Eric DeLong, Treasurer	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
Phil Bertolini*	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
Jeff Dood*	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
Peggy Jury	<input type="checkbox"/> Present	<input checked="" type="checkbox"/> Absent
Brian Meakin	<input type="checkbox"/> Present	<input checked="" type="checkbox"/> Absent
Kelli Scott*	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent
Doug Smith*	<input checked="" type="checkbox"/> Present	<input type="checkbox"/> Absent

*Participated via teleconference.

Other attendees:

- Robert Bruner, Michigan Municipal Services Authority
- Kristen Delaney, Michigan Municipal Services Authority
- Steven Liedel, Dykema

III. Approval of Agenda

Moved by: Scott
Supported by: Smith
Yes: X No: ___

IV. Approval of Minutes from July 12, 2018 Regular Meeting of the Authority Board.

Moved by: Smith
Supported by: Dood
Yes: X No: ___

V. Administrative Report

CEO Robert Bruner delivered the administrative report.

VI. Audit Reports

None.

VII. New Business

a. Resolution 2018-C Schedule of Regular Meetings for Calendar Year 2019

Moved by: DeLong
Supported by: Smith
Yes: X No: ___

VIII. Public Comment

None.

IX. Other Business

None.

X. Adjournment

Moved by: DeLong
Supported by: Cambridge
Yes: X No: ___

Meeting adjourned at 1:59 PM

Certification of Minutes

Approved by the Authority Board on March 14, 2019.

Authority Secretary

Date



Michigan Municipal Services Authority

Administrative Report
Prepared March 8, 2019

Collaborate • Innovate • Serve

Financial Report

MMSA Administrative Report

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Financial Report

- To be distributed prior to the meeting

FMS Program Report

MMSA Administrative Report

Collaborate • Innovate • Serve

FMS Program Update

- Amendment No. 1 has been approved by all parties
- This will allow CGI to move data from a CGI Data Center to Microsoft Azure cloud computing platform
- The current agreements end March 30, 2020
- 90-day notice requirement December 31, 2019
- Authority and participants are discussing renewal options

LCSA Administrative Services

MMSA Administrative Report

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LCSA Administrative Services

February 2019

Winter Millage Payments

- Distributed more than \$52 million to more than 1,600 municipalities, school districts, and intermediate school districts

METRO Act Annual Report

- “The authority shall file an annual report of its activities for the preceding year with the governor and the members of the legislative committees dealing with energy, technology, and telecommunications issues on or before March 1 of each year.” (MCL 484.3103)

LCSA Administrative Services

January – March 2019

METRO Act True-up

- Collect linear footage information from 120+ telecommunication providers

March 2019

METRO Act Maintenance Fee

- Calculate maintenance fees
- Invoice telecommunication providers
- April 29 is the statutory date due for payment

LCSA Administrative Services

May 2019

METRO Act Allocation

- Allocate the funding provided for fee sharing
- Perform city and village calculations
- Perform township calculations

METRO Act Payments

- \$25 million (2018)
- 516 eligible cities and villages
- 1,240 eligible townships

Chief Information Security Officer (CISO) as a Service Program Development Report

MMSA Administrative Report

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Chief Information Security Officer (CISO) as a Service

- FY 2017-18 and FY 2018-19 Supplementals included \$450,000 for CISO as a Service
- Participants meet with DTMB on Friday, February 1
- Participant conference call on Friday, February 8
- Next steps are to be determined

Stop-loss Insurance Cooperative Program Development Report

MMSA Administrative Report

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Michigan Municipal Services Authority

Stop-Loss Insurance Update Analysis of Proposals

Effective January 1, 2019

*Presented by: Kimberly Wixson, Vice President and Health Consultant
Mary Jerome, Associate Consultant
Jeren Thompson, Associate Benefits Consultant*

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Introduction

Financial Analysis

Quote Contingencies

Appendices



Introduction

- On behalf of the Michigan Municipal Services Authority (MMSA), Segal solicited proposals from organizations to provide specific stop-loss insurance to the following municipalities and county governments.
 - City of Troy
 - City of Grand Rapids
 - Oakland County
 - Calhoun County
 - City of Livonia
 - Wayne County (added, not part of July report)
- The current specific stop-loss insurance policies are provided through Blue Cross Blue Shield of Michigan (BCBSM) and Sirius America Insurance Company. All are provided on a paid contract basis, with varying specific deductibles, covering medical only or medical and prescription drug claims. The chart below outlines the current covered lives, deductibles, and claims covered for each municipality or county.

	Covered Lives	Specific Stop-Loss Deductible	Aggregating Specific Deductible	Stop-Loss Incumbent Carrier	Claims Covered
City of Troy	313	\$150,000	None	BCBSM	Medical and Rx
City of Grand Rapids	1,645	None	None	None	None
Oakland County	1,251	\$500,000	None	BCBSM	Medical
Oakland County	2,484	\$500,000	\$100,000	Sirius America Insurance Company	Medical and Rx
Calhoun County	524	\$180,000	None	BCBSM	Medical
City of Livonia	719	\$300,000	None	BCBSM	Medical and Rx
Wayne County	2,726	None	None	None	None

- The MMSA’s objective is to assess the market and determine the competitiveness of its current stop-loss insurance arrangements while also exploring opportunities for potential savings.
- This report provides a comprehensive assessment of each bidder's proposal.

Financial Analysis – Executive Summary

January 1, 2019 – December 31, 2019

- Each vendor was asked to provide proposals with the following specifications:
 - An effective date of January 1, 2019
 - A specific stop-loss deductible matching the current for each municipality or county
 - A \$250,000 and \$300,000 specific deductible for Grand Rapids
 - A \$300,000, \$350,000, and \$400,000 specific deductible for Wayne County
 - A contract basis of “15/12” and “Paid”
 - Coverage for medical claims only and medical and prescription drug claims
- Each vendor provided a proposal which adheres to each of the above requests
- The proposal from TMHCC under the current policy terms, excluding premiums for City of Grand Rapids and Wayne County, is 26.5% higher than the current
- Premiums are based on an estimated 9,662 eligible active, early retiree, and COBRA participants and are net of any commissions

Introduction *continued*

- In July, Segal received four proposals from Berkley, THMCC, Partner Re, and Sun Life
- Updated large claims data, and missing plan and census data was provided to the top bidders, TMHCC, Partner RE, and Sun Life in October
- A '◆' in the chart below indicates that the carrier submitted a quote in response to our request

Company Name	Proposals Received in July	Updated Proposals
Berkley Accident and Health (Berkley)	◆	
Tokio Marine HCC Life (TMHCC)	◆	◆
Partner RE	◆	
Sun Life Financial	◆	

- After a review of the experience, Partner RE and Sun Life declined to provide an updated proposal
- The following pages summarize Segal's analysis of the quotes received

Financial Analysis – Current and Covered Claims – Initial Evaluation

- The following table summarizes the proposals with each municipality's and county's current Paid contract, covered claims basis, and deductible levels:

	Covered Claims	Current	Berkley	Partner RE	Sun Life	TMHCC
City of Troy	Medical and Rx	\$515,800	\$825,800	\$556,200	\$560,800	\$295,900
City of Grand Rapids	N/A	N/A	-	-	-	-
Oakland County	Medical / Medical and Rx	\$891,900	\$1,662,500	\$1,167,300	\$1,275,000	\$1,034,700
Calhoun County	Medical	\$526,100	\$760,600	\$657,300	\$525,300	\$1,002,600
City of Livonia	Medical and Rx	\$581,400	\$743,100	\$621,800	\$582,100	\$476,000
Total Premium		\$2,515,200	\$3,992,000	\$3,002,600	\$2,943,200	\$2,809,200
\$ Difference From Current			\$1,476,800	\$487,400	\$428,000	\$294,000
% Difference From Current			58.7%	19.4%	17.0%	11.7%

- All proposals in this initial evaluation were subject to providing updated large claims and any missing data (i.e. corrected census, missing plan summaries, monthly enrollment)

Financial Analysis – Current and Covered Claims – Final Evaluation

- The following table summarizes the proposals with each municipality’s and county’s current Paid contract, covered claims basis, and deductible levels:

	Covered Claims	Current	Renewal	TMHCC
City of Troy	Medical and Rx	\$368,600	To Be Determined	\$515,800
City of Grand Rapids	N/A	N/A	N/A	
Oakland County	Medical / Medical and Rx	\$891,900	\$916,200	\$1,028,400
Calhoun County	Medical	\$526,100	\$574,000	\$917,600
City of Livonia	Medical and Rx	\$581,400	To Be Determined	\$532,700
Wayne County	N/A	N/A	N/A	
Total Premium		\$2,368,000	To Be Determined	\$2,994,500
\$ Difference From Current			To Be Determined	\$626,500
% Difference From Current			To Be Determined	26.5%

Quote Contingencies and Lasers

- TMHCC's rates for all options are firm for a 1/1/2019 effective date contingent upon review of the disclosure statement
- The TMHCC proposals do include lasers for some municipalities/county governments. The chart below outlines the lasered claimant amounts

	Number of Lasers	Lasered Amounts					
City of Troy	3	\$600,000	\$600,000	\$215,000			
City of Grand Rapids	6	\$1,500,000	\$500,000	\$415,000	\$360,000	\$330,000	\$300,000
Oakland County	2	\$700,000	\$600,000				
Calhoun County	0						None
City of Livonia	0						None
Wayne County	0						None

Appendices



Appendix A

Financial Strength Ratings

	Berkley	Partner RE	Sun Life	TMHCC
A.M. Best	A+	A	A+	A++
Standard and Poor's	Not Rated	A+	AA-	AA

Segal Consulting believes it is important to consider the financial strength of insurance companies and managed care organizations that are candidates for initial selection or renewal as insurers or service providers to employee benefit plans. Therefore, we are providing the current claims paying ability rating that was available to us on the date this document was prepared for the insurance companies or managed care organizations under consideration.

When available, we select Standard & Poor's and A.M. Best because of their excellent overall reputation as rating services. In addition, they evaluate more insurance companies than most of the other comparable rating services. Several other rating services (e.g., Duff & Phelps and Moody's) also provide claims paying ability evaluations of insurance companies and managed care organizations. You may wish to consult these others services before making a decision regarding the initial selection or renewal of an insurance company or managed care organization.

Insurance company and managed care organization rating category explanations are attached. For example, Standard & Poor's ratings range from "Vulnerable" to "Secure". In particular, they regard "vulnerable" companies (i.e., ratings of BB+ and lower) to be at relatively serious risk in terms of meeting both claims and creditor obligations. Insurance companies in this category should be researched carefully before being selected.

Finally, Segal Consulting does not itself perform insurance company or managed care organization credit quality evaluations and does not offer any warranty as to the scope or reliability (e.g., with respect to an organization's ability to meet future obligations) of the insurance company or managed care organization evaluations performed by Standard & Poor's, A.M. Best, or any other rating services.

Appendix A

Rating Categories Explained

A.M. Best's Rating Descriptions*

INVESTMENT GRADE OR SECURE:

RATING*	CATEGORY
A++ and A+	Superior - "very strong ability to meet their ongoing obligations to policyholders"
A and A-	Excellent - "strong ability to meet their ongoing obligations to policyholders"
B++ and B+	Very Good - "good ability to meet their ongoing obligations to policyholders"

BELOW INVESTMENT GRADE OR VULNERABLE

RATING*	CATEGORY
B and B-	Fair - "ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions"
C++ and C+	Marginal - "ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions"
C and C-	Weak - "ability to meet their current obligations to policyholders, but their financial strength is very vulnerable to adverse changes in underwriting and economic conditions"
D	Poor - "ability to meet their current obligations to policyholders and their financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions"
E	Under Regulatory Supervision – "placed by an insurance regulatory authority under a significant form of control or restraint, such as conservatorship or rehabilitation, but does not include liquidation"
F	In Liquidation - "under an order of liquidation by a court of law or whose owners have voluntarily agreed to liquidate the company"
S	Rating Suspended - "experienced sudden and significant events affecting their financial position or operating performance whose rating implications cannot be evaluated due to a lack of timely or adequate information"

*Ratings may be modified as follows: Under Review (u); Group (g); Pooling (p) or Reinsurance (r).

Appendix A

Rating Categories Explained *continued*

Standard & Poor's Rating Descriptions*

INVESTMENT GRADE OR SECURE	
RATING	CATEGORY
AAA	Companies rated AAA have the highest rating assigned. Capacity to pay interest and repay principal is extremely strong.
AA	Companies rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated insurers only to a small degree.
A	Companies rated A have a strong capacity to pay interest and repay principal, although they are somewhat more susceptible to adverse changes in economic conditions than those in higher rated categories.
BBB	Companies rated BBB are regarded as having an adequate capacity to pay interest and repay principal, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal.
BELOW INVESTMENT GRADE OR VULNERABLE	
RATING	CATEGORY
BB; B; CCC; CC	Companies rated BB, B, CCC and CC are regarded, on balance, as speculative with respect to their credit worthiness. While such companies may have some protective characteristics, uncertainties and major risk exposure or adverse conditions outweigh them.
R; NR	The rating R is reserved for companies who "have experienced a REGULATORY ACTION regarding solvency." The rating NR indicates that the insurer's financial solvency is not rated.

Plus (+) or Minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to refine relative standing within each category.

** S&P uses a suffix 'pi' "based on an analysis of published financial information and additional information in the public domain. They do not reflect in-depth meetings with an insurer's management and are, therefore, based on less comprehensive information than ratings without a 'pi' subscript."*

Appendix B

Financial Analysis – 15/12 Medical Claims Only

- The following table outlines the 15/12 Medical proposals:

	Medical Only 15/12		
	Current	Renewal	TMHCC
City of Troy	\$368,600	To Be Determined	\$497,400
City of Grand Rapids (\$250k)	\$0	N/A	\$1,880,400
City of Grand Rapids (\$300k)	\$0	N/A	\$1,524,100
Oakland County	\$891,900	To Be Determined	\$1,050,800
Calhoun County	\$526,100	\$574,000	\$909,200
City of Livonia	\$581,400	To Be Determined	\$515,000
Wayne County (\$300k)	\$0	N/A	\$1,352,600
Wayne County (\$350k)	\$0	N/A	\$1,169,800
Wayne County (\$400k)	\$0	N/A	\$1,031,700
Total Premium	\$2,368,000	To Be Determined	\$5,528,200
\$ Difference From Current		To Be Determined	\$3,160,200
% Difference From Current		To Be Determined	133.5%

Calhoun County stop-loss renewal for medical only on a paid contract basis.

- The differences from current are inflated due to the addition of stop-loss coverage for Grand Rapids and Wayne County. For these policies, the total premium is based on the least expensive (i.e. highest specific deductible) coverage option.
- For those with stop-loss currently (yellow shaded) the total TMHCC premium would be \$1,977,600 or a 21.3% over current.

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Appendix B

Financial Analysis – Paid Medical Claims Only

➤ The following table outlines the Paid Medical proposals:

	Medical Only - Paid		
	Current	Renewal	TMHCC
City of Troy	\$368,600	To Be Determined	\$502,200
City of Grand Rapids (\$250k)	\$0	N/A	\$1,898,600
City of Grand Rapids (\$300k)	\$0	N/A	\$1,539,100
Oakland County	\$891,900	To Be Determined	\$1,061,200
Calhoun County	\$526,100	\$574,000	\$917,600
City of Livonia	\$581,400	To Be Determined	\$519,900
Wayne County (\$300k)	\$0	N/A	\$1,364,400
Wayne County (\$350k)	\$0	N/A	\$1,180,200
Wayne County (\$400k)	\$0	N/A	\$1,040,900
Total Premium	\$2,368,000	To Be Determined	\$5,580,900
\$ Difference From Current		To Be Determined	\$3,212,900
% Difference From Current		To Be Determined	135.7%

Calhoun County stop-loss renewal for medical only on a paid contract basis.

- The differences from current are inflated due to the addition of stop-loss coverage for Grand Rapids and Wayne County. For these policies, the total premium is based on the least expensive (i.e. highest specific deductible) coverage option.
- For those with stop-loss currently (yellow shaded) the total TMHCC premium would be \$3,000,900 or a 26.7% over current.

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Appendix B

Financial Analysis – 15/12 Medical and Rx Claims

- The following table outlines the 15/12 Medical and Rx proposals:

	Medical and Rx - 15/12		
	Current	Renewal	TMHCC
City of Troy	\$368,600	To Be Determined	\$511,000
City of Grand Rapids (\$250k)	\$0	N/A	\$1,916,200
City of Grand Rapids (\$300k)	\$0	N/A	\$1,556,100
Oakland County	\$891,900	To Be Determined	\$1,019,100
Calhoun County	\$526,100	\$574,000	\$940,500
City of Livonia	\$581,400	To Be Determined	\$527,700
Wayne County (\$300k)	\$0	N/A	\$1,382,400
Wayne County (\$350k)	\$0	N/A	\$1,195,600
Wayne County (\$400k)	\$0	N/A	\$1,055,000
Total Premium	\$2,368,000	To Be Determined	\$5,609,400
\$ Difference From Current		To Be Determined	\$3,241,400
% Difference From Current		To Be Determined	136.9%

Calhoun County stop-loss renewal for medical only on a paid contract basis.

- The differences from current are inflated due to the addition of stop-loss coverage for Grand Rapids and Wayne County. For these policies, the total premium is based on the least expensive (i.e. highest specific deductible) coverage option.
- For those with stop-loss currently (yellow shaded) the total TMHCC premium would be \$1,976,300 or a 21.2% over current.

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Appendix B

Financial Analysis – Paid Medical and Rx Claims

- The following table outlines the Paid Medical and Rx proposals:

	Medical and Rx - Paid		
	Current	Renewal	TMHCC
City of Troy	\$368,600	To Be Determined	\$515,800
City of Grand Rapids (\$250k)	\$0	N/A	\$1,934,500
City of Grand Rapids (\$300k)	\$0	N/A	\$1,571,300
Oakland County	\$891,900	To Be Determined	\$1,028,400
Calhoun County	\$526,100	\$574,000	\$949,500
City of Livonia	\$581,400	To Be Determined	\$532,700
Wayne County (\$300k)	\$0	N/A	\$1,394,500
Wayne County (\$350k)	\$0	N/A	\$1,206,100
Wayne County (\$400k)	\$0	N/A	\$1,064,800
Total Premium	\$2,368,000	To Be Determined	\$5,662,500
\$ Difference From Current		To Be Determined	\$3,294,500
% Difference From Current		To Be Determined	139.1%

Calhoun County stop-loss renewal for medical only on a paid contract basis.

- The differences from current are inflated due to the addition of stop-loss coverage for Grand Rapids and Wayne County. For these policies, the total premium is based on the least expensive (i.e. highest specific deductible) coverage option.
- For those with stop-loss currently (yellow shaded) the total TMHCC premium would be \$3,026,400 or a 27.8% over current.

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**Michigan Municipal Services Authority
Lansing, Michigan**

FINANCIAL STATEMENTS

September 30, 2018

Michigan Municipal Services Authority

TABLE OF CONTENTS

September 30, 2018

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-iv
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Notes to Financial Statements	4-7
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	8-9

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Michigan Municipal Services Authority
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Michigan Municipal Services Authority (the Authority), a component unit of the State of Michigan, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Michigan Municipal Services Authority, a component unit of the State of Michigan, as of September 30, 2018, and the respective changes in financial position and cash flows 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 identified 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, on our consideration of the Michigan Municipal Services Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Michigan Municipal Services Authority's internal control over financial reporting and compliance.

Maney Costeiran PC

February 28, 2019

Michigan Municipal Services Authority
MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

The intent of the management's discussion and analysis is to provide highlights of the Authority's financial activities for the fiscal year ended September 30, 2018. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Net Position: The assets of the Authority exceeded its liabilities by \$246,212 as of September 30, 2018. This unrestricted net position may be used to meet the Authority's ongoing obligations.
- ❖ The total net position decreased by \$125,303 as a result of current year activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Authority, including notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Authority using accounting methods similar to those used by private-sector companies. These statements offer short and long-term financial information about its activities.

The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to their creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing their liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE AUTHORITY

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information to determine how the Authority did financially during 2018. The net position, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions and new or changed government legislation also need to be considered in determining the Authority's financial health.

NET POSITION

The Authority's Condensed Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented in the following comparative tables.

Michigan Municipal Services Authority
MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

TABLE 1
CONDENSED STATEMENT OF NET POSITION

	Sept. 30, 2018	Sept. 30, 2017
Current assets	\$ 258,273	\$ 502,167
Current liabilities	12,061	130,652
Unrestricted net position	\$ 246,212	\$ 371,515

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2018	Restated 2017
Operating revenues	\$ 2,569,250	\$ 5,094,654
Operating expenses	2,694,553	5,261,771
Changes in net position	(125,303)	(167,117)
Beginning net position	371,515	538,632
Ending net position	\$ 246,212	\$ 371,515

The Authority's operating revenues decreased by \$2,525,404 and operating expenses decreased by \$2,567,218 from the prior year because the Virtual Health and Wellness Marketplace program ended and participation in the Financial Management System decreased.

BUDGETARY HIGHLIGHTS

The Authority is an enterprise fund and is not required to adopt an annual budget. However, the Authority Board does adopt an annual operating budget. The operating budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect but can be revised with the Authority Board approval prior to the September 30 year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's budget for the fiscal year ending September 30, 2019, reflects maintenance of the status quo and includes no changes in revenues or expenses.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate its accountability for the funds it receives. Questions regarding this report or requests for additional information should be addressed to the Michigan Municipal Services Authority, P.O. Box 12012, Lansing, MI 48901-2012.

BASIC FINANCIAL STATEMENTS

Michigan Municipal Services Authority

STATEMENT OF NET POSITION

September 30, 2018

	Operating Fund	Virtual Health and Wellness Marketplace	Financial Management System	Total
ASSETS				
Current assets				
Cash	\$ 220,345	\$ 428	\$ -	\$ 220,773
Due from other governmental units	37,500	-	-	37,500
TOTAL ASSETS	257,845	428	-0-	258,273
LIABILITIES				
Current liabilities				
Accounts payable	7,480	428	-	7,908
Accrued wages	4,153	-	-	4,153
TOTAL LIABILITIES	11,633	428	-0-	12,061
NET POSITION				
Unrestricted	\$ 246,212	\$ -0-	\$ -0-	\$ 246,212

Michigan Municipal Services Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended September 30, 2018

	Operating Fund	Virtual Health and Wellness Marketplace	Financial Management System	Total
OPERATING REVENUES				
Intergovernmental	\$ 150,000	\$ 57,225	\$ 2,362,025	\$ 2,569,250
OPERATING EXPENSES				
Chief Executive	197,947	-	-	197,947
Accounting	26,973	-	-	26,973
Insurance	3,298	-	-	3,298
Attorney	30,198	-	-	30,198
Contractual services	11,027	201,135	2,221,868	2,434,030
Miscellaneous	2,107	-	-	2,107
TOTAL OPERATING EXPENSES	271,550	201,135	2,221,868	2,694,553
INCOME (LOSS) BEFORE TRANSFERS	(121,550)	(143,910)	140,157	(125,303)
TRANSFERS				
Transfers in	140,157	143,910	-	284,067
Transfers out	(143,910)	-	(140,157)	(284,067)
TOTAL TRANSFERS	(3,753)	143,910	(140,157)	-0-
CHANGE IN NET POSITION	(125,303)	-0-	-0-	(125,303)
Restated net position, beginning of year	371,515	-	-	371,515
Net position, end of year	<u>\$ 246,212</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 246,212</u>

Michigan Municipal Services Authority

STATEMENT OF CASH FLOWS

Year Ended September 30, 2018

	Operating Fund	Virtual Health and Wellness Marketplace	Financial Management System	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 228,102	\$ 57,225	\$ 2,362,025	\$ 2,647,352
Cash paid to suppliers	(143,300)	(200,707)	(2,221,868)	(2,565,875)
Cash paid to employees	(197,940)	-	-	(197,940)
Cash paid for employee benefits	(473)	-	-	(473)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(113,611)	(143,482)	140,157	(116,936)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	140,157	143,910	-	284,067
Cash paid to other funds	(143,910)	-	(140,157)	(284,067)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(3,753)	143,910	(140,157)	-0-
NET INCREASE (DECREASE) IN CASH	(117,364)	428	-0-	(116,936)
Cash, beginning of year	337,709	-	-	337,709
Cash, end of year	<u>\$ 220,345</u>	<u>\$ 428</u>	<u>\$ -0-</u>	<u>\$ 220,773</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (121,550)	\$ (143,910)	\$ 140,157	\$ (125,303)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities				
Decrease in:				
Due from other governmental units	78,102	-	-	78,102
Accounts receivable	48,856	-	-	48,856
Increase (decrease) in:				
Accounts payable	(118,553)	428	-	(118,125)
Accrued wages	7	-	-	7
Other accrued liabilities	(473)	-	-	(473)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (113,611)	\$ (143,482)	\$ 140,157	\$ (116,936)

Michigan Municipal Services Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Michigan Municipal Services Authority (the Authority) was established on August 1, 2012 pursuant to the Urban Cooperation Act of 1967, as part of an interlocal agreement between the City of Grand Rapids and the City of Livonia. The purpose of the Authority is to engage in cooperative activities that save staff time and taxpayer money.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The following is a summary of the significant accounting policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Michigan Municipal Services Authority. The Authority is considered a component unit of the State of Michigan.

The Authority is controlled by a five-member Executive Committee. The Governor shall designate a member of the Executive Committee to serve as its Chairperson at the pleasure of the Governor. The Executive Committee shall elect from among the serving members of the Executive Committee a Vice-Chairperson of the Executive Committee and a Secretary of the Authority.

2. Basis of Presentation

The financial statements present the Authority's individual major funds. The major individual enterprise funds are reported as separate columns in the financial statements.

The Authority presents the following major enterprise funds:

- The Operating Fund accounts for all financial resources of the Authority except for those that are required to be accounted for in another fund.
- The Virtual Health and Wellness Marketplace Fund accounts for the financial resources related to the operation of the Authority's Virtual Health and Wellness Marketplace, the costs are financed or recovered primarily through user charges.
- The Financial Management System Fund accounts for the financial resources related to the operation of the Authority's Financial Management System (FMS) program, the costs are financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of this fund are included on the Statement of Net Position. Fund equity (i.e., net position) is segregated into net investment in capital assets, restricted, and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting

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.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

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 Authority are contract fees to other governmental units for services provided. Operating expenses for the Authority include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Cash

Cash consists of a checking account.

6. Due from Other Governmental Units

Due from other governmental units consist of amounts due from participating municipalities related to services provided.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The Authority currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently does not have any items that qualify for reporting in this category.

8. Interfund Transactions

During the course of normal operations, the Authority has numerous transactions between funds, including transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as operating transfers.

9. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

Michigan Municipal Services Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2018, the carrying amount of the Authority's deposits was \$220,773 and the bank balance was \$220,824. The Authority's account was fully insured by the Federal Deposit Insurance Corporation (FDIC).

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2018, the Authority did not have any investments that would be subject to rating by an NRSRO.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Michigan Municipal Services Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: CASH - CONTINUED

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Board approved policy.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers.

Transfers to Operating Fund from:	
Financial Management System Fund	<u>\$ 140,157</u>
Transfers to Virtual Health and Wellness Marketplace Fund from:	
Operating Fund	<u>\$ 143,910</u>

Transfers were used to move unrestricted resources to finance operating costs that the Authority must account for in other funds.

NOTE D: RISK MANAGEMENT

The Authority is exposed to various risks of loss for liability and workers' compensation claims. For workers' compensation claims the Authority carries commercial insurance. Settled claims, if any, relating to the commercial insurance have not exceeded the amount of insurance coverage in either of the past three (3) fiscal years.

NOTE E: RESTATEMENT OF NET POSITION

Beginning net position has been restated due to a correction of accounting error in the prior period.

	Operating Fund
	<hr/>
Beginning net position	\$ 322,659
Accounts receivable	48,856
	<hr/>
Restated beginning net position	<u>\$ 371,515</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Michigan Municipal Services Authority
Lansing, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Michigan Municipal Services Authority (the Authority), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

February 28, 2019



Michigan Municipal Services Authority

PO BOX 12012, LANSING MI 48901-2012

**AUTHORITY BOARD
RESOLUTION 2019-A**

Approval of Audit for Fiscal Year 2017-2018

The Authority Board of the Michigan Municipal Services Authority ("Authority") resolves that the audit of the Authority for the fiscal year ending September 30, 2018 prepared by Maner Costerisan, P.C. and presented to the Authority Board at its regular meeting on March 14, 2019 is approved as provided under Section 4.02 of the interlocal agreement that created the Authority.

Secretary's Certification:

I certify that this resolution was adopted by the Authority Board of the Michigan Municipal Services Authority at a properly-noticed open meeting held with a quorum present on March 14, 2019.

By: _____
James Cambridge
Authority Secretary