

Lake Erie Regional Council of Governments

Lorain County, Ohio

Regular Audit

July 1, 2009 through June 30, 2010



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

Board of Directors
Lake Erie Regional Council of Governments
1885 Lake Ave
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Lake Erie Regional Council of Governments, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 Lake Erie Regional 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

March 2, 2011

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Lake Erie Regional Council of Governments
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Independent Auditor's Report

Lake Erie Regional Council of Governments
Lorain, County
1885 Lake Avenue
Elyria, Ohio 44035

To the Members of Council:

We have audited the accompanying financial statements of the business-type activities of the Lake Erie Regional Council of Governments, Lorain County, (the Council), as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Council's management. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities, its major fund and the aggregate remaining fund information of Lake Erie Regional Council of Government, Lorain County, Ohio, as of June 30, 2010 and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Members of Council
Lake Erie Regional Council of Governments
Independent Auditor's Report
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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Balestra, Harr & Scherer, CPAs, Inc.
November 4, 2010

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The discussion and analysis of the Lake Erie Regional Council of Governments (the "Council") financial performance provides an overall review of the Council's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Council's financial performance as a whole. Readers should also review the cash basis financial statements and not those respective statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets were \$ 11,119,163 at June 30, 2010.
- Program cash receipts totaled \$ 15,717,073 in 2010 and program cash disbursements were \$ 17,405,197 for fiscal year 2010. The Council also received \$ 301,176 in interest receipts during the year. Total change in cash net assets for fiscal year 2010 was a decrease of \$ 1,386,948.

Reporting the Council's Financial Activities

Statement of Net Assets –Cash Basis, Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Net Assets – Cash Basis.

These documents look at all financial transactions and asks the question, "How did we do financially during 2010? The Statement of Net Assets – Cash Basis and The Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year receipts and disbursements if the cash is actually received or paid.

These two statements report the Council's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Council as a whole, the cash basis financial position of the Council has improved or diminished.

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

The Statement of Net Assets – Cash Basis can be found on page 6 of this report and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets can be found on page 9 of this report.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The table below provides a summary of the Council's cash net assets at June 30, 2010 and June 30, 2009.

Table 1 - Net Cash Assets

	Business-type Activities	
	2010	2009
Assets		
Cash and investments with fiscal agent	\$ 11,119,163	\$ 12,506,111
Total assets	<u>11,119,163</u>	<u>12,506,111</u>
Net assets		
Unrestricted	11,119,163	12,506,111
Total net assets	<u>\$ 11,119,163</u>	<u>\$ 12,506,111</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Council's net cash assets totaled \$ 11,119,163, an decrease of \$ 1,386,948 from fiscal year 2009.

Table 2 shows the changes in net cash assets from fiscal year 2010 to fiscal year 2009:

Table 2 - Change in Net Assets

	2010	2009	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 15,530,839	\$ 18,013,947	\$ (2,483,108)
Life insurance premium deposits	186,234	184,684	1,550
Media Center charges for services	-	44,130	(44,130)
Interest	301,176	441,774	(140,598)
Total cash receipts	<u>16,018,249</u>	<u>18,684,535</u>	<u>(2,666,286)</u>
Cash disbursements			
Salaries	57,849	71,644	(13,795)
Fringe benefits	205,176	220,333	(15,157)
Claims	15,582,649	14,154,079	1,428,570
Insurance premiums	500,381	500,354	27
Purchased services	1,036,091	1,100,260	(64,169)
Materials and supplies	7,958	818	7,140
Refund of excess reserves	15,093	952,491	(937,398)
Other	-	682,722	(682,722)
Total cash disbursements	<u>17,405,197</u>	<u>17,682,701</u>	<u>(277,504)</u>
Increase (decrease) in net cash assets	<u>\$ (1,386,948)</u>	<u>\$ 1,001,834</u>	<u>\$ (2,388,782)</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The decrease of \$ 2,666,286 in operating cash receipts can be attributed primarily to a two month "holiday" on health insurance premiums in an effort to lower reserves.

Operating cash disbursements decreased by \$ 277,504. The net decrease can be attributed mainly to the discontinuance of the natural gas program in the prior year and a decrease in disbursements for refund of excess reserves. These large decreases were offset with an increase in claims disbursements.

Current Financial Related Activities

The Council promotes cooperative agreements to its members in dealing with problems of mutual concerns. The Council is a jointly governed organization. During 2010 the Council offered a claims servicing health insurance program and a life insurance purchasing pool. The Council is constantly assessing the needs of its members and acting to provide these services cost effectively.

The largest service offered by the Council is the health insurance claims servicing pool, a self-funded, self-administered insurance program. The claims servicing pool was comprised of ten Lorain County school districts, including the Educational Service Center. Health insurance rates are set through an annual calculation process. The members pay a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. Claims are paid for all participants regardless of claims flow or individual account balance. The Council receives an actuarial opinion statement annually assessing the claims liability of the claims servicing pool.

The Council's assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. The Council is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board.

Contacting the Council's Financial Management

This financial report is designed to provide our clients and creditors with a general overview 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 Jill Orseno, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or by calling 440-324-5777.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF NET ASSETS – CASH BASIS

JUNE 30, 2010

	<u>Business-type Activities</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 11,119,163</u>
Total assets	<u><u>11,119,163</u></u>
Net assets	
Unrestricted	<u>11,119,163</u>
Total net assets	<u><u>\$ 11,119,163</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

		Program Cash Receipts			Net
	Cash	Charges	Operating	Capital	(Disbursements
	Disbursements	for Services	Grants,	Grants and	Receipts and
		and Sales	Contributions	Contribution	Changes in
			and Interest		Net Assets
Business-type activities					
Insurance purchasing pool	\$ 17,206,013	\$ 15,530,839	\$ -	\$ -	\$ (1,675,174)
Natural gas consortium	-	-	-	-	-
Other	199,184	186,234	-	-	(12,950)
Total business-type activities	\$ 17,405,197	15,717,073	-	-	(1,688,124)
			General receipts		
			Interest		301,176
			Total general receipts		301,176
			Change in net assets		(1,386,948)
			Net assets at beginning of year		12,506,111
			Net assets at end of year		\$ 11,119,163

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET ASSETS – CASH BASIS
PROPRIETARY FUNDS

JUNE 30, 2010

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets			
Cash and investments with fiscal agent	\$ 11,112,335	\$ 6,828	\$ 11,119,163
Total assets	<u>11,112,335</u>	<u>6,828</u>	<u>11,119,163</u>
 Net assets			
Unrestricted	11,112,335	6,828	11,119,163
Total net assets	<u>\$ 11,112,335</u>	<u>\$ 6,828</u>	<u>\$ 11,119,163</u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN NET CASH ASSETS – CASH BASIS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

	Insurance Purchasing Pool	Nonmajor Enterprise Funds	Total Enterprise Funds
Operating cash receipts			
Health benefit premium deposits	\$ 15,530,839	\$ -	\$ 15,530,839
Life insurance premium deposits	-	186,234	186,234
Total operating cash receipts	<u>15,530,839</u>	<u>186,234</u>	<u>15,717,073</u>
Operating cash disbursements			
Salaries	57,849	-	57,849
Fringe benefits	21,085	184,091	205,176
Claims	15,582,649	-	15,582,649
Insurance premiums	500,381	-	500,381
Purchased services	1,036,091	-	1,036,091
Materials and supplies	7,958	-	7,958
Refund of excess reserves	-	15,093	15,093
Total operating cash disbursements	<u>17,206,013</u>	<u>199,184</u>	<u>17,405,197</u>
Excess of operating cash receipts over (under) operating cash disbursements	<u>(1,675,174)</u>	<u>(12,950)</u>	<u>(1,688,124)</u>
Non-operating cash receipts / disbursements			
Interest	301,176	-	301,176
Transfers - in	6,956	-	6,956
Transfers - out	-	(6,956)	(6,956)
Total non-operating cash receipts / disbursements	<u>308,132</u>	<u>(6,956)</u>	<u>301,176</u>
Decrease in net cash assets	(1,367,042)	(19,906)	(1,386,948)
Net cash assets at beginning of year	<u>12,479,377</u>	<u>26,734</u>	<u>12,506,111</u>
Net cash assets at end of year	<u>\$ 11,112,335</u>	<u>\$ 6,828</u>	<u>\$ 11,119,163</u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 DESCRIPTION OF THE ENTITY

Lake Erie Regional Council of Governments (the "Council"), Lorain County, Ohio is a body corporate and politic established to exercise 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 promotes cooperative agreements to its members in dealing with problems of mutual concerns. The Council currently offers a life insurance purchasing pool and a claims servicing health insurance program. The Council is constantly assessing needs of its members and acting to provide these services cost effectively. Services provided by the cooperative are approved by the Council's Board of Directors.

The Council is a jointly governed organization. As of June 30, 2010, there were seventeen members of the Council. The Council's Board of Directors is the legislative decision making body of the Council and is comprised of the superintendent or designated representative from each participating district, and the fiscal agent.

One of the largest responsibilities of the Council is to offer an insurance purchasing pool to its members as defined by Governmental Accounting Standards Board Statement No. 10. The health insurance claims servicing pool is comprised of ten Lorain County school districts, including the Educational Service Center. The pool was formed to carry out a cooperative program for the provision and administration of health care benefits. 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. The pool premiums are billed to each participating school district based on actuarially determined rates. Claims are paid for all participants regardless of claims flow or individual account balance. The Council receives an actuarial opinion statement annually assessing the claims liability of the insurance purchasing pool.

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

A. BASIS OF ACCOUNTING

The financial statements follow the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Receipts are recognized when received in cash rather than earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 the government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses enterprise funds 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 capital maintenance, public policy, management control, accountability or other purposes. As of June 30, 2010, the Council's major enterprise fund was as follows:

Insurance Purchasing Pool – This enterprise fund is used to account for revenues collected from the participating members to pay all related medical claims incurred during the year.

C. BUDGETARY PROCESS

The Council is not required to follow the budgetary process, but has decided to adopt a formal budget annually.

Appropriations. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level and appropriations may not exceed estimated resources. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

Estimated Resources. Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

Encumbrances. The Council reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

D. CASH AND INVESTMENTS WITH FISCAL AGENT

The Educational Service Center of Lorain County (the "Service Center") serves as the fiscal agent for the Council. The Service Center maintains the Council's financial activity on the Service Center's books under a specific fund designed for Council activity. The Treasurer of the Service Center, acting as custodian of Council funds, invests monies on behalf of the Council. Investments maintained by the Service Center as fiscal agent were limited to certificates of deposit, STAROhio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper, and federal agencies. These investments are valued at fair value.

An analysis of the Council's cash and investments with its fiscal agent at fiscal year-end is provided in Note 3.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3: CASH AND INVESTMENTS WITH FISCAL AGENT

Fiscal Agent. The Educational Service Center of Lorain County serves as the fiscal agent for the Council.

Deposits. At fiscal year end, the carrying amount of the Council's deposits was \$ 3,630,257, including \$ 2,188,204 in certificates in deposits, and the bank balance was \$ 3,675,196. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2010, \$ 3,581,196 of the Council's bank balance was covered by Federal Depository Insurance and \$ 94,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Council's name.

Custodial credit risk is the risk that, in the event of bank failure, the Council's deposits may not be returned. The Council's policy is to place deposits with major local banks approved by the Council's Board. 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 Chapter 135 of the Ohio Revised Code, is held in financial institution 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.

Investments. As of June 30, 2010, the Council has a formal investment policy. The Council follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At June 30, 2010, fair market value of investments was \$ 7,488,906. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

Interest Rate Risk. As a means of limiting its exposure to fair market value losses arising from rising interest rates and according to state law, the Council's investment policy limits investment portfolio maturities to five years or less. The Council's investment portfolio is structured so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk. The credit risk of the Council's investments is identified in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Council has no investment policy that would further limit its investment choices.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 CASH AND INVESTMENTS WITH FISCAL AGENT (continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Council's name. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk. The Council places no limit on the amount that may be invested to any one issuer. The Council's investments in U.S. Agency notes represents 94.8 percent of the Council's total investments. Investments at June 30, 2010 were as follows:

	Fair Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 388,122	AAAm	\$ 388,122	\$ -	\$ -
U.S. Agencies	7,100,784	AAA	1,376,913	750,251	4,973,620
Total	<u>\$ 7,488,906</u>		<u>\$ 1,765,035</u>	<u>\$ 750,251</u>	<u>\$ 4,973,620</u>

NOTE 4 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2010 is as follows, which includes encumbrances of \$ 299,373:

	2010 Budgeted vs. Actual		
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 17,495,000</u>	<u>\$ 16,285,479</u>	<u>\$ (1,209,521)</u>
Expenditures	<u>\$ 17,971,799</u>	<u>\$ 17,971,799</u>	<u>\$ -</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 RELATED PARTY TRANSACTIONS

In consideration for its services, the Educational Service Center of Lorain County, as fiscal agent, receives a fee from the Council in such an amount as approved by the Council's Board of Directors. During the fiscal year ended June 30, 2010 the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Health Insurance	\$ 52,770
Life Insurance	3,211
Total	\$ 55,981

NOTE 6 RISK MANAGEMENT

A. INSURANCE PURCHASING POOL

The Council's health insurance program became fully pooled as of July 1, 2007. The actuary established initial reserve balance for the fully pooled plan. The Districts were billed if their June 30, 2007 balance was below the actuarially established reserve or had money refunded to them if their June 30, 2007 cash balance was above the reserve level. Separate district balances are no longer kept and all IBNR claims belong to the pool and not the individual districts.

Effective January 1, 2006, the Council contracted with Medical Mutual of Ohio as a third-party administrator to process and pay health benefit claims for in-hospital services, outpatient services, and physician charges. Dental and vision claims are processed and paid by Council employees. The Council also contracts with Caremark for prescription drug services. Caremark bills the Council weekly for prescriptions by member district. The health insurance claims servicing pool is comprised of ten Lorain County school districts, including the Educational Service Center. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. During fiscal year 2010, the Council purchased specific stop-loss coverage of \$ 200,000 per individual and a maximum aggregate stop-loss coverage liability of 130 percent of claims. The fiscal agent treasurer makes monthly payments to the third party administrator for stop-loss premiums and administrative charges as per the agreement. Stop-loss premiums and administrative costs are contracted annually and may vary from month to month based on the number of enrollees in the plan and the number of single and family plans.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2010:

	2010	2009
Cash and Investments	\$ 11,112,335	\$ 12,479,377
Actuarial Liabilities	\$ 2,975,000	\$ 2,674,000

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 RISK MANAGEMENT (continued)

B. COMMERCIAL INSURANCE

The Council obtained commercial insurance for the following risks:

- Commercial Property and General Liability
- Commercial Inland Marine
- Professional Liability
- Commercial Auto
- Commercial Crime

Claims have not exceeded coverage in any of the past three years. There has not been significant reduction in coverage from the prior year.

NOTE 7 SEGMENT INFORMATION

The Council maintains separate enterprise fund accounts for the various cooperative programs offered. Separate account information for these programs for the year ended June 30, 2010 is as follows:

	Insurance Purchasing Pool	Media Center	Life Insurance	Total Enterprise Funds
Net cash assets, June 30, 2009	\$ 12,479,377	\$ 6,956	\$ 19,778	\$ 12,506,111
Operating receipts	15,530,839	-	186,234	15,717,073
Operating disbursements	17,206,013	-	199,184	17,405,197
Operating receipts over (under) operating disbursements	(1,675,174)	-	(12,950)	(1,688,124)
Non-operating:				
Receipts	308,132	-	-	308,132
Disbursements	-	(6,956)	-	(6,956)
Increase (decrease) in net cash assets	(1,367,042)	(6,956)	(12,950)	(1,386,948)
Net cash assets, June 30, 2010	<u>\$ 11,112,335</u>	<u>\$ -</u>	<u>\$ 6,828</u>	<u>\$ 11,119,163</u>



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lake Erie Regional Council of Governments
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Members of Council:

We have audited the financial statements of the business-type activities, its' major fund and the aggregate remaining fund information of Lake Erie Regional Council of Governments, Lorain, County, (the Council) as of and for the year ended June 30, 2010, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 4, 2010, wherein we noted the Council uses a comprehensive accounting basis other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's 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, providing an opinion 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*.

Lake Erie Regional Council of Governments
Lorain County

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

We intend this report solely for the information and use of audit committee, management, Council Members, and others within the Council. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
November 4, 2010



Dave Yost • Auditor of State

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENT

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2011