

**LAKE ERIE REGIONAL
COUNCIL OF GOVERNMENTS**
LORAIN COUNTY, OHIO

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of Lake Erie Regional Council of Governments, Lorain County, prepared by Julian & Grube, Inc., for the audit period July 1, 2022 through June 30, 2023. 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. Lake Erie Regional Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 05, 2024

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

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Independent Auditor's Report

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

To the Board of Directors:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying cash-basis financial statements of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Lake Erie Regional Council of Governments' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the Lake Erie Regional Council of Governments, as of June 30, 2023, and the respective changes in cash-basis financial position for the fiscal year then ended in accordance with cash basis of accounting described in Note 2.

Basis for Opinion

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. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Lake Erie Regional Council of Governments and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Ohio Administrative Code § 117-2-03(B) requires the Lake Erie Regional Council of Governments to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Erie Regional Council of Governments' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lake Erie Regional Council of Governments' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Erie Regional Council of Governments' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the *management's discussion and analysis* and *Ten-Year Claims Development Information* but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, on our consideration of the Lake Erie Regional Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Lake Erie Regional Council of Governments' 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 Lake Erie Regional Council of Governments' internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 8, 2023

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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, 2023. 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 notes to those respective statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2023 are as follows:

- In total, net position was \$18,008,738 at June 30, 2023. This represents a decrease of \$3,144,397 from June 30, 2022.
- The Council had operating receipts of \$46,096,816, operating disbursements of \$49,635,445, and nonoperating receipts of \$394,232 for fiscal year 2023.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Council's financial activities. The *statement of net position-cash basis* and *statement of receipts, disbursements, and changes in net position - cash-basis* provide information about the activities of the Council.

Reporting the Council Financial Activities

Statement of Net Position - Cash Basis and Statement of Receipts, Disbursements, and Changes in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2023?" The statement of net position - cash basis and the statement of receipts, disbursements, and changes in net position - cash basis answer this question. These statements include only net position 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 position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Council as a whole, the financial position of the Council has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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) and deferred inflows/outflows of resources 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.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 9-15 of this report.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Net Position - Cash Basis and Changes in Net Position - Cash Basis

Table 1 below provides a summary of the Council's net position for fiscal year 2023 and 2022.

Table I - Net Position - Cash Basis

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Cash and investments with fiscal agent	\$ 18,008,738	\$ 21,153,135
<u>Net Position:</u>		
Unrestricted	<u>\$ 18,008,738</u>	<u>\$ 21,153,135</u>

Net position can serve as a useful indicator of a government's financial position. At June 30, 2023, the Council's net position totaled \$18,008,738, a decrease of \$3,144,397, from fiscal year 2022.

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

Table 2 below shows the changes in net position for fiscal year 2023 and 2022.

Table 2 - Change in Net Position - Cash Basis

	<u>2023</u>	<u>2022</u>
<u>Operating receipts:</u>		
Health benefit premium deposits	\$ 46,096,816	\$ 43,797,919
<u>Operating disbursements:</u>		
Salaries	41,108	39,011
Fringe benefits	27,030	24,984
Claims	44,474,106	41,975,619
Insurance premiums	2,980,419	2,492,999
Purchased services	<u>2,112,782</u>	<u>2,005,508</u>
Total operating disbursements	<u>49,635,445</u>	<u>46,538,121</u>
Operating loss	(3,538,629)	(2,740,202)
<u>Nonoperating receipts:</u>		
Interest	394,226	149,379
Other nonoperating receipts	<u>6</u>	<u>1,735</u>
Total nonoperating receipts	<u>394,232</u>	<u>151,114</u>
Change in net position	<u>(3,144,397)</u>	<u>(2,589,088)</u>
Net position at beginning of year	<u>21,153,135</u>	<u>23,742,223</u>
Net position at end of year	<u>\$ 18,008,738</u>	<u>\$ 21,153,135</u>

Fiscal year 2023 operating cash receipts and operating cash disbursements increased \$2,298,897 and \$3,097,324 from fiscal year 2022, respectively. Operating cash receipts increased in fiscal year 2023 as a result of increased health benefit premium contributions paid by members. Operating cash disbursements increased due to claims, insurance premiums (stop-loss insurance), and administrative fees.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Current Financial Related Activities

The Council currently consists of a self-funded health insurance program with an emphasis on health and well-being. Health insurance rates are set through an annual calculation process. The members pay a monthly contribution which is placed into a pooled fund from which claims payments are made for all participating members. The Council receives an actuarial opinion statement annually assessing the claims liability of the claims servicing pool.

The Council promotes wellness by providing funds to use for wellness activities and awareness and also pays for an employee assistance program for use with employees and their family members at no extra cost to the employee.

The Council's assembly consists of a superintendent and treasurer, or designated representative, from each participating district who are the Board of Directors. 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 Angela Dotson, 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 POSITION - CASH BASIS
JUNE 30, 2023

Assets:	
Cash and investments with fiscal agent	<u>\$ 18,008,738</u>
Net position:	
Unrestricted	<u><u>\$ 18,008,738</u></u>

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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Operating receipts:	
Health benefit premium deposits	<u>\$ 46,096,816</u>
Operating disbursements	
Salaries	41,108
Fringe benefits	27,030
Claims	44,474,106
Insurance premiums	2,980,419
Purchased services	<u>2,112,782</u>
Total operating cash disbursements	<u>49,635,445</u>
 Operating loss	 <u>(3,538,629)</u>
Nonoperating receipts:	
Interest	394,226
Refund of prior year disbursements	<u>6</u>
Total nonoperating receipts	<u>394,232</u>
 Change in net position	 (3,144,397)
 Net position at beginning of year	 <u>21,153,135</u>
 Net position at end of year	 <u><u>\$ 18,008,738</u></u>

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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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. During the fiscal year ended June 30, 2023, the Council offered 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, 2023, there were twelve 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.

The Council offers 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 eleven Lorain County school districts, as well as 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

As discussed in Note 2.A., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. Following are the more significant of the Council's 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 when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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, accrued expenses and liabilities) and deferred inflows/outflows of resources 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 GOVERNEMNTS
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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 an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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 are limited to federal agency securities, municipal bonds, U.S. treasury notes, negotiable certificates of deposit (negotiable CDs), STAR Ohio (the State Treasurer's Investment Pool), and U.S. government money market. In accordance with the cost basis of accounting, with the exception of STAR Ohio, these investments are reported at cost.

The Council invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The Council measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2023, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours notice in advance of all deposits and withdrawals exceeding \$100 million is encouraged. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

An analysis of the Council’s cash and investments with its fiscal agent at fiscal year-end is provided in Note 4.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

E. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The Council had no restricted net cash position at fiscal year-end.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2023, the Council has implemented GASB Statement No. 91, "Conduit Debt Obligations", GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements", GASB Statement No. 96, "Subscription Based Information Technology Arrangements", certain questions and answers of GASB Implementation Guide 2021-1 and certain paragraphs of GASB Statement No. 99, "Omnibus 2022".

GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The implementation of GASB Statement No. 91 did not have an effect on the financial statements of the Council.

GASB Statement No. 94 is to improve financial reporting by addressing issues related to public-private and public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. The implementation of GASB Statement No. 94 did not have an effect on the financial statements of the Council.

GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The implementation of GASB Statement No. 96 did not have an effect on the financial statements of the Council.

GASB Implementation Guide 2021-1 provides clarification on issues related to previously established GASB guidance. The implementation of GASB Implementation Guide 2021-1 did not have an effect on the financial statements of the Council.

GASB Statement No. 99 to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation of GASB Statement No. 99 did not have an effect on the financial statements of the Council.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the Council to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Council prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit certain assets, liabilities, deferred outflows/inflows of resources, net position and disclosures that, while material, cannot be determined at this time. The Council can be fined and various other administrative remedies may be taken against the Council.

NOTE 4 - CASH AND INVESTMENTS WITH FISCAL AGENT

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

A. Legal Requirements

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

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

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

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

Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies held by the Council can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NOTE 4 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Council, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in the possession of an outside party. Protection of the Council's cash and deposit is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets. Council's policy is to place deposits with major local banks approved by the Council's Board.

At year end, the carrying amount of all deposits was \$3,133,057 and the bank balance was \$3,494,790. \$250,000 of the Council's bank balance was covered by Federal Depository Insurance, \$3,244,790 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Council's name. The Council's financial institution was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System resulting in the uninsured and uncollateralized balance.

The Council has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the Council and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 4 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2023, the financial institutions that did participate were approved for a reduced collateral rate of 50 percent through the OPCS.

C. Investments

As of June 30, 2023, the Council has a formal investment policy. The Council records all its investments at measurement value. At June 30, 2023, measurement value of investments was \$14,875,681. STAR Ohio is measured at net asset value per share while all other investments are measured at cost.

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 STAR Ohio 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.

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

Concentration of Credit Risk: The Council places no limit on the amount that may be invested to any one issuer. Investments at June 30, 2023 were as follows:

<u>Investment</u>	<u>Measurement Value</u>	<u>% of Total</u>	<u>Standard & Poor's Credit Rating</u>	<u>Investment Maturities</u>		
				<u>< 1 Year</u>	<u>1 - 2 Years</u>	<u>3 - 5 Years</u>
FHLB	\$ 649,971	3.53%	AA+, Aaa	\$ 119,971	\$ 400,000	\$ 130,000
FHLMC	124,846	0.68%	AA+, Aaa	124,846	-	-
FFCB	1,028,843	5.58%	AA+, Aaa	674,188	354,655	-
FNMA	250,000	1.36%	AA+, Aaa	-	-	250,000
Municipal bonds	137,060	1.16%	AA, Aa3	-	-	137,060
U.S. treasury notes	144,677	2.28%	AA+, Aaa	-	144,677	-
Negotiable CDs	7,193,000	39.11%	-	1,837,000	2,381,000	2,975,000
STAR Ohio	5,341,613	35.91%	AAAm	5,341,613	-	-
U.S. government money market	5,671	0.08%	-	5,671	-	-
Total	\$ 14,875,681	89.69%		\$ 8,103,289	\$ 3,280,332	\$ 3,492,060

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, 2023, the Council paid \$161,082 to the Educational Service Center.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNEMNTS
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 6 - RISK MANAGEMENT

A. Insurance Purchasing Pool

The Council contracts with Medical Mutual of Ohio as a third-party administrator to process and pay health benefit claims for in-hospital services, outpatient services, physician charges as well as vision services. Delta Dental is a third-party administrator to process and pay all dental claims and Caremark administers prescription drug services. All entities invoice the Council fiscal agent weekly for paid claims by member districts. The health insurance servicing pool is comprised of eleven Lorain County School Districts, as well as the Educational Service Center. Payments are made monthly for premiums by the twelve member districts as established and approved by the Board of Directors. During fiscal year 2023, the Council purchased specific stop-loss coverage of \$300,000 per individual. The fiscal agent treasurer makes monthly payments to the third-party administrators for administrative charges as per their agreements. 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, 2023 and June 30, 2022:

	<u>2023</u>		<u>2022</u>
Cash and investments	\$ 18,008,738	\$	21,153,135
Actuarial liabilities	5,668,466		4,426,556

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.

OTHER INFORMATION

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
1. Premium and investment income	\$ 46,491,042	\$ 43,947,298	\$ 40,634,834	\$ 41,501,365	\$ 41,808,889
2. Unallocated cash disbursements	5,161,339	4,562,502	3,970,172	3,912,220	3,803,129
3. Claims disbursements	44,474,106	41,975,619	38,059,451	34,771,543	34,134,364
4. Claims paid, cumulative as of:					
End of accident year	N/Av	N/Av	N/Av	N/Av	N/Av
One year later		N/Av	N/Av	N/Av	N/Av
Two years later			N/Av	N/Av	N/Av
Three years later				N/Av	N/Av
Four years later					N/Av
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					

The rows of the table above are defined as follows:

1. This line shows the total of each fiscal year's gross premiums received and interest income.
2. This line shows non-claim related cash disbursements for each fiscal year.
3. This line shows the claim disbursements for each fiscal year.
4. This section shows the cumulative net amount of claims paid as of the end of the fiscal year.

Notes:

N/Av - Data not available as of June 30 each fiscal year

The Council reports on the cash basis of accounting. Premium and investment income are recorded when received and unallocated cash disbursements and claims disbursements are recorded when paid by the Council. A claims liability is not recorded under the Council's cash basis of accounting.

	2018	2017	2016	2015	2014
\$	31,440,378	\$ 26,291,977	\$ 27,954,559	\$ 25,573,396	\$ 25,142,074
	3,260,139	2,492,967	2,380,382	2,419,485	2,072,572
	25,130,658	21,464,157	2,201,965	24,052,850	23,122,726
	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
		N/Av	N/Av	N/Av	N/Av
			N/Av	N/Av	N/Av
				N/Av	N/Av
					N/Av

**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***

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

To the Board of Directors:

We have audited, 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, the cash-basis financial statements of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Lake Erie Regional Council of Governments' basic financial statements and have issued our report thereon dated December 8, 2023, wherein we noted the Lake Erie Regional Council of Governments uses a special purpose framework other than generally accepted accounting principles.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lake Erie Regional Council of Governments' internal control over financial reporting (internal control) as a basis for designing 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 Lake Erie Regional Council of Governments' internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake Erie Regional Council of Governments' 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Lake Erie Regional Council of Governments' 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 or significant deficiencies may exist that were not identified.

Lake Erie Regional Council of Governments

Lorain County

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*

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Erie Regional Council of Governments' financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2023-001.

Lake Erie Regional Council of Governments' Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Lake Erie Regional Council of Governments' response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Lake Erie Regional Council of Governments' response was not subjected to the other auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on the response.

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 Lake Erie Regional Council of Governments' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake Erie Regional Council of Governments' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.

December 8, 2023

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2023**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2023-001

Noncompliance – Annual Financial Report:

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office that submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the Council to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Council prepares its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles.

The accompanying financial statements and footnotes omit certain assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to the Ohio Revised Code Section 117.38, the Council may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the Council take the necessary steps to ensure the annual report is prepared in accordance with accounting principles generally accepted in the United States of America, in order to comply with the Ohio Administrative Code.

Client Response: Client believed it would not be cost-beneficial to file on a GAAP basis.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2023**

<u>Finding Number</u>	<u>Year Initially Occurred</u>	<u>Finding Summary</u>	Status	Additional Information
2022-001	2017	<u>Noncompliance</u> - Ohio Admin. Code § 117-2-03(B) requires the Council to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Council prepares its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.	Not Corrected	Repeated as finding 2023-001 as financial statements were prepared on a cash basis.

OHIO AUDITOR OF STATE KEITH FABER



LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS

LORAIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 2/15/2024

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov