

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Accountants' Report* of the Lake Erie Regional Council of Governments, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 27, 2005

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Lorain County, Ohio (the Council), as of and for the year ended June 30, 2005, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 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 basis financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of June 30, 2005, and the respective changes in cash basis net assets for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005, 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. 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 the internal control over financial reporting or on compliance. 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental 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.

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 11, 2005

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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, 2005. 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 2005 are as follows:

- In total, net assets were \$5,485,927 at June 30, 2005.
- Operating cash receipts totaled \$23,381,929 in 2005 and cash operating disbursements were \$22,561,224 for fiscal year 2005. The Council also received \$98,090 in interest receipts during the year. Total change in cash net assets for fiscal year 2005 was an increase of \$918,795.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2005?". 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 principals 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 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Unaudited)**

The Statement of Net Assets – Cash Basis can be found on page 5 of this report and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets can be found on page 6 of this report.

The table below provides a summary of the Council's cash net assets at June 30, 2005 and June 30, 2004.

Table 1 - Net Cash Assets

	<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Cash and Investments with Fiscal Agent	\$ 5,485,927	\$ 4,567,132
Total Assets	<u>5,485,927</u>	<u>4,567,132</u>
<u>Net Cash Assets</u>		
Unrestricted	5,485,927	4,567,132
Total Net Cash Assets	<u>\$ 5,485,927</u>	<u>\$ 4,567,132</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Council's net cash assets totaled \$5,485,927, an increase of \$918,795 over fiscal year 2004.

Table 2 shows the changes in net cash assets from fiscal year 2005 to fiscal year 2004:

Table 2 - Change in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Cash Receipts</u>				
Health Benefit Premium Deposits	\$20,086,010	\$20,999,071	\$ (913,061)	(4.35)%
Natural Gas Consortium Deposits	2,899,226	3,253,001	(353,775)	(10.88)%
Life Insurance Premium Deposits	243,343	316,837	(73,494)	(23.20)%
Media Center Charges for Services	138,768	138,138	630	0.46 %
Miscellaneous	14,582	119,513	(104,931)	(87.80)%
General Receipts	98,090	91,614	6,476	7.07 %
Total Cash Receipts	<u>23,480,019</u>	<u>24,918,174</u>	<u>(1,438,155)</u>	<u>(5.82)%</u>
<u>Cash Disbursements</u>				
Salaries	223,027	228,142	(5,115)	(2.24)%
Fringe Benefits	102,261	34,999	67,262	192.18 %
Claims	17,341,650	20,120,641	(2,778,991)	(13.81)%
Insurance Premiums	886,697	722,704	163,993	22.69 %
Natural Gas Purchases	2,954,790	2,969,047	(14,257)	(0.48)%
Purchased Services	1,034,466	1,948,725	(914,259)	(46.92)%
Materials and Supplies	9,888	17,419	(7,531)	(43.23)%
Capital Outlay	6,175	4,253	1,922	(45.19)%
Miscellaneous	2,270	6,676	(4,406)	(66.00)%
Total Cash Disbursements	<u>22,561,224</u>	<u>26,052,606</u>	<u>(3,491,382)</u>	<u>(13.40)%</u>
<i>Increase (Decrease) in Net Cash Assets</i>	<u>\$ 918,795</u>	<u>\$ (1,134,432)</u>	<u>\$ 2,053,227</u>	<u>(180.99)%</u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Unaudited)**

The decrease in operating cash receipts can be attributed to less money collected from health insurance premiums due to the withdrawal of a school district from the health insurance pool as well as the life insurance purchasing pool. Natural gas consortium deposits decreased due to reduced membership in the program.

Operating cash disbursements decreased by \$3,491,382 due primarily to reduced claims expenses. During fiscal year 2005 a school district withdrew from the health insurance consortium resulting in less claims required to be paid during the fiscal year. Purchased Services decreased by \$914,259 due to reduced claims processing administrative fees.

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. The Council offers a media service, a natural gas purchasing consortium, a life insurance, floor covering, and property 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.

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 is comprised of approximately eleven Lorain County school districts and 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. Upon termination, the terminating member would be liable for all outstanding claims beyond their individual balance. The Council Board of Directors has the right to return monies to a withdrawn member after all expenses and claims have been paid. 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 Tom Tomlin, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or calling 440-324-5777.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2005**

	<u>Business-Type Activities</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Investments with Fiscal Agent	\$ <u>5,485,927</u>
Total Assets	<u>5,458,927</u>
<u>Net Cash Assets</u>	
Unrestricted	<u>5,485,927</u>
Total Net Assets	<u>\$ 5,485,927</u>

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF ACTIVITIES - CASH BASIS - PROPRIETARY FUNDS
JUNE 30, 2005**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements)
		Charges for Services and Sales	Contributions and Interest	Capital Grants and Contributions	Receipts and Changes In Net Assets Total Business-Type Activities
<u>Business-Type Activities</u>					
Insurance Purchasing Pool	\$ 19,195,222	\$ 20,086,010	\$ 0	\$ 0	\$ 890,788
Natural Gas Consortium	2,965,296	2,899,226	0	0	(66,070)
Other	<u>400,706</u>	<u>396,693</u>	<u>0</u>	<u>0</u>	<u>(4,013)</u>
Total Business-Type Activities	<u>\$ 22,561,224</u>	<u>\$23,381,929</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>820,705</u>
 <u>General Receipts</u>					
Interest					<u>98,090</u>
Total General Receipts					<u>98,090</u>
Change in Net Assets					918,795
Net Assets Beginning of Year					<u>4,567,132</u>
Net Assets End of Year					<u>\$ 5,485,927</u>

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF FUND NET ASSETS - CASH BASIS - PROPRIETARY FUNDS
JUNE 30, 2005**

	Business-Type Activities			
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	Total Enterprise Funds
<u>Assets</u>				
<u>Current Assets</u>				
Cash and Investments	\$ 4,882,706	\$ 442,795	\$ 160,426	\$ 5,485,927
Total Assets	4,882,706	442,795	160,426	5,485,927
<u>Net Cash Assets</u>				
Unrestricted	4,882,706	442,795	160,426	5,485,927
Total Net Assets	\$ 4,882,706	\$ 442,795	\$ 160,426	\$ 5,485,927

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
CASH NET ASSETS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Business-Type Activities			Total Enterprise Funds
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	
<u>Operating Cash Receipts</u>				
Health Benefit Premium Deposits	\$20,086,010	\$ 0	\$ 0	\$20,086,010
Natural Gas Consortium Deposits	0	2,899,226	0	2,899,226
Life Insurance Premiums Deposits	0	0	243,343	243,343
Media Center Charges for Services	0	0	138,768	138,768
Miscellaneous	0	0	14,582	14,582
Total Operating Cash Receipts	<u>20,086,010</u>	<u>2,899,226</u>	<u>396,693</u>	<u>23,381,929</u>
<u>Operating Cash Disbursements</u>				
Salaries	223,027	0	0	223,027
Fringe Benefits	102,261	0	0	102,261
Claims	17,341,650	0	0	17,341,650
Insurance Premiums	886,697	0	0	886,697
Natural Gas Premiums	0	2,954,790	0	2,954,790
Purchased Services	636,550	10,506	387,410	1,034,466
Materials and Supplies	4,937	0	4,951	9,888
Capital Outlay	0	0	6,175	6,175
Miscellaneous	100	0	2,170	2,270
Total Operating Cash Disbursements	<u>19,195,222</u>	<u>2,965,296</u>	<u>400,706</u>	<u>22,561,224</u>
Excess of Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>890,788</u>	<u>(66,070)</u>	<u>(4,013)</u>	<u>820,705</u>
<u>Non-Operating Cash Receipts</u>				
Interest	90,349	4,796	2,945	98,090
Total Non-Operating Cash Receipts	<u>90,349</u>	<u>4,796</u>	<u>2,945</u>	<u>98,090</u>
Increase (Decrease) in Net Cash Assets	981,137	(61,274)	(1,068)	918,795
Net Cash Assets at Beginning of Year	<u>3,901,569</u>	<u>504,069</u>	<u>161,494</u>	<u>4,567,132</u>
Net Cash Assets at End of Year	<u>\$ 4,882,706</u>	<u>\$ 442,795</u>	<u>\$ 160,426</u>	<u>\$ 5,485,927</u>

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 offers a media service, a natural gas purchasing consortium, a life insurance, floor covering and property 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 governing board.

The Council is a jointly governed organization. As of June 30, 2005, there were seventeen members of the Council. The Council’s assembly 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 is governed by a board of directors chosen from the general membership. The Council’s Board of Directors is the advisory body of the Council and is comprised of five individuals including the Superintendent of the Educational Service Center of Lorain County who serves as the chairman. The degree of control exercised by any participating district is limited to its representation on the board.

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. There are currently eleven members in the insurance purchasing pool. It 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. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating member would be liable for all outstanding claims beyond their individual balance. The Council’s Board of Directors has the right to return monies to a withdrawn member after all expenses and claims have been paid. 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

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 when 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). These statements included adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

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. The following are the Council’s major enterprise funds:

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.

Gas Consortium – This fund is used to account for revenues collected from participating members to purchase gas in large quantities in order to reduce cost.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Budgetary Process** (Continued)

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, STAR Ohio, 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, 2005
(CONTINUED)**

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 \$2,077,072, including \$1,931,118 in certificates in deposits. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2005, \$2,072,627 of the Council's bank balance was covered by Federal Depository Insurance and \$4,445 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 ORC, 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, 2005, 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, 2005, fair market value was \$8,151 below net cost, which is included in the fair value in the investment information detailed under the section titled *Concentration of Credit Risk*, which appears at the end of this note. 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, 2005
(CONTINUED)**

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 84.9 percent of the Council's total investments. Cash and investments at June 30, 2005 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities</u>		
			<u>< 1 Year</u>	<u>1-2 Years</u>	<u>3-5 Years</u>
STAROhio	\$ 514,185	AAA	\$ 514,185	\$ 0	\$ 0
U.S. Agencies	2,894,670	AAA	2,198,044	298,738	397,688
Carrying Amount of Deposits	<u>2,077,072</u>		<u>1,681,072</u>	<u>99,000</u>	<u>297,000</u>
Totals	<u>\$ 5,485,927</u>		<u>\$ 4,393,301</u>	<u>\$ 397,938</u>	<u>\$ 694,688</u>

NOTE 4: BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2005 is as follows:

	<u>2005 Budgeted vs. Actual Receipts</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Enterprise Fund Type</u>			
Receipts	<u>\$23,977,153</u>	<u>\$ 23,977,153</u>	<u>\$ 0</u>
Expenditures	<u>\$23,532,376</u>	<u>\$ 23,532,376</u>	<u>\$ 0</u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

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, 2005, the following fees were paid to the Educational Service Center by the Council:

<u>Service</u>	<u>Amount</u>
Media Center	\$ 11,323
Floor Covering	179
Health Insurance	126,130
Natural Gas	10,000
Life Insurance	<u>6,311</u>
Total	<u>\$ 153,943</u>

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. The Council also contracts with Caremark for prescription drug services. Caremark bills the Council weekly for prescriptions by member district. Processing charges are billed monthly and are charged to each district's account based on the number of prescriptions filled during the month. Outpatient services, physician charges, dental and vision claims are processed and paid by Council employees. Payments are made monthly for premiums by the eleven member districts as established and approved by the Board of Directors. During fiscal year 2005, the Council purchased specific stop-loss coverage of \$165,000 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.

Ten of the eleven participating districts in the health plan paid in an amount upon joining the plan to be held on deposit to pay claim "run-out" in the event the member should leave the consortium. The total on deposit is \$1,103,436 as of June 30, 2005. Any money remaining after all outstanding claims are paid is returned to the member one year after leaving the consortium. Any shortfall after all claims are paid is billed to the member district. Vermilion Local Schools joined the consortium on July 1, 2000 and did not pay an initial deposit.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 6: **RISK MANAGEMENT** (Continued)

A. **Insurance Purchasing Pool** (Continued)

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2005:

	2005	2004
Cash and Investments	\$ 5,035,506	\$ 3,630,340
Actuarial Liabilities	\$ 3,708,000	\$ 3,600,000

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

NOTE 7: **CASH POSITION OF MEMBER SCHOOL DISTRICTS IN INSURANCE PURCHASING POOL**

At June 30, 2005, the member school districts of the Council had the following respective cash positions in the insurance purchasing pool including their respective terminal liabilities:

Member District	Cash Position
Amherst	\$ 735,582
Clearview	(492,506)
Columbia	218,901
Firelands	1,120,527
Keystone	723,839
Educational Service Center of Lorain County	368,379
Lorain County JVS	149,419
Midview	338,494
Sheffield-Sheffield Lake	538,799
Vermilion	992,306
Wellington	344,337
Claims Reserve Balance (non-active members)	(2,571)
Cash Balance as of June 30, 2005	<u>\$5,035,506</u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 8: RETIREMENT SYSTEM

The Council's employees are members of the School Employees Retirement System. Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Council's contribution is used to fund obligations, with the remainder used to fund health care benefits. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The Council has paid all contributions required through June 30, 2005.

NOTE 9: 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, 2005 is as follows:

	<u>Media Center</u>	<u>Floor Covering</u>	<u>Health Insurance</u>	<u>Gas Consortium</u>	<u>Life Insurance</u>	<u>Property Insurance</u>	<u>Total</u>
Net Cash Assets June 30, 2004	\$ 149,189	\$ 0	\$ 3,901,569	\$ 504,069	\$ 11,705	\$ 600	\$ 4,567,132
Operating Receipts	145,807	6,354	20,086,010	2,899,226	243,343	1,189	23,381,929
Operating Disbursements	141,843	6,354	19,195,222	2,965,296	250,723	1,786	22,561,224
Operating Receipts Over (Under)							
Operating Disbursements	3,964	0	890,788	(66,070)	(7,380)	(597)	820,705
Non-Operating Receipts	2,945	0	90,349	4,796	0	0	98,090
Receipts Over (Under) Disbursements	6,909	0	981,137	(61,274)	(7,380)	(597)	918,795
Net Cash Assets June 30, 2005	156,098	0	4,882,706	442,795	4,325	3	5,485,927

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**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

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Lorain County, Ohio (the Council), as of and for the year ended June 30, 2005, which collectively comprise the Lake Erie Regional Council of Governments' basic financial statements, and have issued our report thereon dated November 11, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of the Council in a separate letter dated November 11, 2005.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 11, 2005



**Auditor of State
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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
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
DECEMBER 30, 2005**