

Lake Erie Regional Council of Governments

Lorain County, Ohio

Regular Audit

July 1, 2008 through June 30, 2009



**Balestra, Harr & Scherer, CPAs, Inc.**

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528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: (740) 289-4131 Fax: (740) 289-3639





# Mary Taylor, CPA

Auditor of State

Members of Council  
Lake Erie Regional Council of Governments  
1885 Lake Avenue  
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, 2008 through June 30, 2009. 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 "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 19, 2010

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**Lake Erie Regional Council of Governments**  
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*For the Fiscal Year Ended June 30, 2009*

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**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

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

We have audited the accompanying financial statements of the business-type activities of the Lake Erie Regional Council of Governments, (the Council), as of and for the year ended June 30, 2009, which collectively comprise the Council's basic financial statements. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 described more fully in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

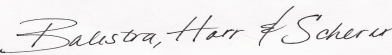
The Council has not considered the need to provide, nor do the financial statements include the "Required Supplementary Information" per GASB 10, paragraph, 50.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business-type activities of the Council, as of June 30, 2009, and the changes in cash basis financial position thereof in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The "Required Supplemental Information" required by GASB 10, paragraph, 50 is not a required part of the basic financial statement. The Council's lack of presenting the "Required Supplemental Information" did not allow us to apply the limited procedures normally required in connection with the "Required Supplementary Information."

  
Balestra, Harr & Scherer, CPAs, Inc.  
January 14, 2010

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(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, 2009. 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 2009 are as follows:

- In total, net assets were \$ 12,506,111 at June 30, 2009.
- Program cash receipts totaled \$ 18,242,761 in 2009 and program cash disbursements were \$ 17,682,701 for fiscal year 2009. The Council also received \$ 441,774 in interest receipts during the year. Total change in cash net assets for fiscal year 2009 was an increase of \$ 1,001,834.

### **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 2009? 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, 2009  
(Unaudited)

The table below provides a summary of the Council's cash net assets at June 30, 2009 and June 30, 2008.

**Table 1 - Net Cash Assets**

	Business-type Activities	
	2009	2008
Assets		
Cash and investments with fiscal agent	\$ 12,506,111	\$ 11,504,277
Total assets	<u>12,506,111</u>	<u>11,504,277</u>
Net assets		
Unrestricted	12,506,111	11,504,277
Total net assets	<u>\$ 12,506,111</u>	<u>\$ 11,504,277</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the Council's net cash assets totaled \$ 12,506,111, an increase of \$ 1,001,834 from fiscal year 2008.

Table 2 shows the changes in net cash assets from fiscal year 2009 to fiscal year 2008:

**Table 2 - Change in Net Assets**

	2009	2008	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 18,013,947	\$ 15,748,617	\$ 2,265,330
Natural gas consortium deposits	-	2,266,350	(2,266,350)
Life insurance premium deposits	184,684	190,232	(5,548)
Media Center charges for services	44,130	133,240	(89,110)
Miscellaneous	-	1,428	(1,428)
Interest	441,774	632,381	(190,607)
Total cash receipts	<u>18,684,535</u>	<u>18,972,248</u>	<u>(287,713)</u>
Cash disbursements			
Salaries	71,644	128,429	(56,785)
Fringe benefits	220,333	213,676	6,657
Claims	13,654,079	13,865,125	(211,046)
Insurance premiums	500,354	569,418	(69,064)
Natural gas premiums	-	2,184,344	(2,184,344)
Purchased services	1,100,260	1,266,269	(166,009)
Materials and supplies	818	5,814	(4,996)
Capital outlay	-	568	(568)
Refund of excess reserves	1,452,491	4,098,854	(2,646,363)
Miscellaneous	682,722	-	682,722
Total cash disbursements	<u>17,682,701</u>	<u>22,332,497</u>	<u>(4,649,796)</u>
Increase (decrease) in net cash assets	<u>\$ 1,001,834</u>	<u>\$ (3,360,249)</u>	<u>\$ 4,362,083</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Unaudited)

The decrease of \$ 95,678 in operating cash receipts can be attributed primarily to the discontinuance of the natural gas purchasing consortium and media service effective July 1, 2008. The decrease from those two activities was offset by an increase in collections from health insurance premiums.

Operating cash disbursements decreased by \$ 5,332,518. The increase can be attributed mainly to the natural gas purchasing consortium and the media service activities being discontinued and a decrease in the refunds of excess reserves.

**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 2009 the Council offered a claims servicing health insurance program and a life insurance purchasing pool. As of July 1, 2008 a media service and natural gas purchasing consortium were discontinued. 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, 2009

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>			Net (Disbursements, Receipts and Changes in Net Assets)
		<u>Charges</u> <u>for Services</u> <u>and Sales</u>	<u>Operating</u> <u>Grants,</u> <u>Contributions</u> <u>and Interest</u>	<u>Capital</u> <u>Grants and</u> <u>Contribution</u>	
Business-type activities					
Insurance purchasing pool	\$ 16,740,897	\$ 18,013,947	\$ -	\$ -	\$ 1,273,050
Natural gas consortium	682,722	-	-	-	(682,722)
Other	259,082	228,814	-	-	(30,268)
Total business-type activities	<u>\$ 17,682,701</u>	<u>18,242,761</u>	<u>-</u>	<u>-</u>	<u>560,060</u>
			General receipts		
			Interest		441,774
			Total general receipts		<u>441,774</u>
			Change in net assets		1,001,834
			Net assets at beginning of year		11,504,277
			Net assets at end of year		<u>\$ 12,506,111</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET ASSETS – CASH BASIS  
PROPRIETARY FUNDS

JUNE 30, 2009

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets			
Cash and investments with fiscal agent	\$ 12,479,377	\$ 26,734	\$ 12,506,111
Total assets	<u>12,479,377</u>	<u>26,734</u>	<u>12,506,111</u>
 Net assets			
Unrestricted	12,479,377	26,734	12,506,111
Total net assets	<u>\$ 12,479,377</u>	<u>\$ 26,734</u>	<u>\$ 12,506,111</u>

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, 2009

	Insurance Purchasing Pool	Nonmajor Enterprise Funds	Total Enterprise Funds
Operating cash receipts			
Health benefit premium deposits	\$ 18,013,947	\$ -	\$ 18,013,947
Life insurance premium deposits	-	184,684	184,684
Total operating cash receipts	18,013,947	184,684	18,198,631
Operating cash disbursements			
Salaries	58,221	-	58,221
Fringe benefits	22,914	189,393	212,307
Claims	13,654,079	-	13,654,079
Insurance premiums	500,354	-	500,354
Purchased services	1,052,050	-	1,052,050
Materials and supplies	788	-	788
Refund of excess reserves	1,452,491	-	1,452,491
Total operating cash disbursements	16,740,897	189,393	16,930,290
Excess of operating cash receipts over (under) operating cash disbursements	1,273,050	(4,709)	1,268,341
Non-operating cash receipts / disbursements			
Interest	441,774	-	441,774
Transfers - in	-	56,000	56,000
Advances - in	-	32,500	32,500
Transfers - out	-	(56,000)	(56,000)
Advances - out	-	(32,500)	(32,500)
Discontinued operations	-	(708,281)	(708,281)
Total non-operating cash receipts / disbursements	441,774	(708,281)	(266,507)
Increase (decrease) in net cash assets	1,714,824	(712,990)	1,001,834
Net cash assets at beginning of year	10,764,553	739,724	11,504,277
Net cash assets at end of year	\$ 12,479,377	\$ 26,734	\$ 12,506,111

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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. Effective July 1, 2008, the Council discontinued a media service center and natural gas purchasing consortium programs. 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, 2009, 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 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).

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, 2009

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, 2009, 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, 2009

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 \$ 3,502,455, including \$ 3,115,204 in certificates in deposits, and the bank balance was \$ 3,566,723. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2009, \$ 3,472,723 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, 2009, 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, 2009, fair market value of investments was \$ 9,003,656. 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, 2009

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 94.6 percent of the Council's total investments. Investments at June 30, 2009 were as follows:

	Fair Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 487,658	AAAm	\$ 487,658	\$ -	\$ -
U.S. Agencies	8,515,998	AAA	1,251,000	528,940	6,736,058
Total	<u>\$ 9,003,656</u>		<u>\$ 1,738,658</u>	<u>\$ 528,940</u>	<u>\$ 6,736,058</u>

NOTE 4 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2009 is as follows, which includes encumbrances of \$ 131,825:

2009 Budgeted vs. Actual			
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 18,769,503</u>	<u>\$ 18,773,035</u>	<u>\$ 3,532</u>
Expenditures	<u>\$ 17,903,026</u>	<u>\$ 17,903,026</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, 2009

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, 2009, the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Media Center	\$ 2,004
Health Insurance	63,347
Life Insurance	3,714
Total	\$ 69,065

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.

As a result of the Council's health insurance program becoming fully pooled as of July 1, 2007, these member school districts have the following monies owed to them at June 30, 2009:

Member District	Cash Position
Vermilion	\$ 187,373

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 RISK MANAGEMENT (continued)

A. INSURANCE PURCHASING POOL (continued)

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 2009, 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, 2009:

	<u>2009</u>	<u>2008</u>
Cash and Investments	\$ 12,219,103	\$ 10,504,279
Actuarial Liabilities	\$ 2,674,000	\$ 2,707,000

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

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**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, 2009 is as follows:

	Insurance Purchasing Pool	Natural Gas Consortium	Media Center	Life Insurance	Total Enterprise Funds
Net cash assets, June 30, 2008	\$ 10,764,553	\$ 706,222	\$ 9,015	\$ 24,487	\$ 11,504,277
Operating receipts	18,013,947	-	-	184,684	18,198,631
Operating disbursements	16,740,897	-	-	189,393	16,930,290
Operating receipts over (under) operating disbursements	1,273,050	-	-	(4,709)	1,268,341
Non-operating:					
Receipts	441,774	32,500	56,000	-	530,274
Disbursements	-	(56,000)	(32,500)	-	(88,500)
Discontinued operations	-	(682,722)	(25,559)	-	(708,281)
Increase (decrease) in net cash assets	1,714,824	(706,222)	(2,059)	(4,709)	1,001,834
Net cash assets, June 30, 2009	<u>\$ 12,479,377</u>	<u>\$ -</u>	<u>\$ 6,956</u>	<u>\$ 19,778</u>	<u>\$ 12,506,111</u>

**NOTE 8 DISCONTINUED OPERATIONS**

During 2008 the Board of Directors voted to discontinue the media service center and natural gas purchasing consortium programs as of July 1, 2008. These program's net cash assets at June 30, 2008 was used to pay any outstanding obligations of the respective programs, with any excess to be refunded to the participating member districts.

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of the business-type activities of the Lake Erie Regional Council of Governments, (the Council) as of and for the year ended June 30, 2009, which collectively comprise the Council's basic financial statements and have issued our report thereon dated January 14, 2010, wherein we noted the Council follows the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, the Council did not present the required supplementary information as required by Government Auditing Standards Board Statement No. 10, paragraph 50. 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 Council's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not to opine on the effectiveness of the Council's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that the Council's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the Council's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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 Council'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 that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and the Board of Directors. 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.  
January 14, 2010







**Mary Taylor, CPA**  
Auditor of State

**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  
APRIL 1, 2010**