



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2003 & 2002



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

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 Lake Erie Regional Council of Governments, Lorain County, Ohio, (the Council) as of and for the years ended June 30, 2003 and June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the Council prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Lake Erie Regional Council of Governments, Lorain County, Ohio as of June 30, 2003 and June 30, 2002, and its cash receipts and cash disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Directors and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 22, 2003

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND FUND CASH BALANCES - PROPRIETARY FUND TYPE -
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>Enterprise</u>	<u>Enterprise</u>
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Operating Receipts:		
Charges for Services	\$21,472,640	\$20,500,969
Earnings on Investments	190,073	229,934
	<hr/>	<hr/>
Total Operating Receipts	21,662,713	20,730,903
Operating Disbursements:		
Salaries and Benefits	284,066	284,954
Claims Payments	17,938,544	13,966,830
Purchased Services	4,458,555	4,766,052
Supplies and Materials	12,289	10,225
Capital Outlay	14,961	46,128
Other Operating Disbursements	2,272	2,193
	<hr/>	<hr/>
Total Operating Disbursements	22,710,687	19,076,382
Operating Income/(Loss)	(1,047,974)	1,654,521
Non-operating Receipts:		
Other Non-operating Receipts	616	0
	<hr/>	<hr/>
Net Receipts Over/(Under) Disbursements	(1,047,358)	1,654,521
Fund Cash Balances, July 1	5,943,464	4,288,943
	<hr/>	<hr/>
Fund Cash Balances, June 30	<u>\$4,896,106</u>	<u>\$5,943,464</u>

The notes to the financial statements are an integral part of this statement.

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Lake Erie Regional Council of Governments (Council) is a jointly governed organization consisting of seventeen school districts throughout northern Ohio. The Council, established under Chapter 167, Ohio Revised Code, operates under a twenty-eight-member board of directors and provides administrative services for life, disability, and health care benefits for the employees of its participating member school districts. The Council also negotiates on the behalf of its members to contract for property and casualty insurance, floor covering, natural gas, and provides teachers access to a media center for instructional support. The Council also operates a cooperative purchasing program and a countywide mail courier service for participating member school districts.

The board has designated the Lorain County Educational Service Center as fiscal agent. The fiscal agent is responsible for receiving contributions, paying benefits, investing available funds, and carrying out such other responsibilities as designated by the Council.

Management believes the financial statements included in this report represent all of the funds of the Council over which it has the ability to exercise direct operating control.

B. Reporting Entity

The Lake Erie Regional Council of Governments is a primary government and constitutes the entire reporting entity.

C. Basis of Accounting

The Council prepares its financial statements on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when the liability is incurred. The operating statement is conceptually similar to a statement of cash flows. Under the cash basis of accounting being used, receivables and corresponding accrued revenues, payables and corresponding expenditures, inventories, and fixed assets are excluded from these financial statements.

This basis of accounting is an "other comprehensive basis of accounting" (OCBOA) prescribed by the Auditor of State.

D. 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 governmental entities in which legal or other restraints require the recording of specific receipts and disbursements.

The transactions of the fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with the fund are as follows:

Proprietary Fund

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 and services 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 purpose.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
Continued**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council does pass an annual budget in the month of May preceding the fiscal year. Appropriation amendments and transfers are approved by the Board of Directors during the year as required.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation (upon leaving employment or retirement) and sick leave (only upon retirement). Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Council.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Council invests in Certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

The carrying amount of cash and investments at June 30 was as follows:

	<u>2003</u>	<u>2002</u>
Demand deposits	\$320,657	\$91,335
Certificates of deposit	1,184,187	1,182,201
Money markets	384,706	190,139
Total deposits	<u>1,889,550</u>	<u>1,463,675</u>
STAR Ohio	69,462	68,475
Commercial paper	2,937,094	4,411,314
Total investments	<u>3,006,556</u>	<u>4,479,789</u>
Total deposits and investments	<u><u>\$4,896,106</u></u>	<u><u>\$5,943,464</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or, (2) collateralized by the financial institution's public entity deposit pool.

Investments: Equity securities are held in book entry form by a financial institution's trust department in the Council's name.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
Continued**

3. RETIREMENT SYSTEM

The School Employees Retirement System of Ohio (SERS) is a state operated, cost sharing, multiple employer public employee retirement system. All employees of the Council belong to SERS. SERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. SERS also provides survivor and disability benefits to vested employees.

Employees contribute 9.0% of their gross salaries. The employer matching is 14% of gross salary. A portion of the Council's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% was used to fund pension benefits and 5.83% was allocated to post employment benefits. For fiscal year 2002, 5.46% was used to fund pension benefits and 8.54% was allocated to post employment benefits. The pension contribution requirements for the Council for the years ended June 30, 2003, June 30, 2002, and June 30, 2001 were \$17,908, \$12,193, and \$9,214; respectively.

4. POST EMPLOYMENT BENEFITS

The School Employees Retirement System of Ohio (SERS) provides comprehensive health care benefits to eligible retirees and their dependents. Eligibility requirements benefit provisions, and obligations to contribute are established by the system based on authority granted by State statute.

The portions of SERS employer contributions allocated to health care benefits as of June 30, 2003 and June 30, 2002 were 5.83% and 8.54%; respectively. The Council's total contributions for health care benefits in fiscal year 2003, 2002, and 2001 were \$12,779, \$19,070, and \$21,500; respectively.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
Continued**

5. RISK MANAGEMENT

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

Insurance Purchasing Pool

The Council administers the Lake Erie Regional Council of Governments Insurance Purchasing Pool which is comprised of fourteen member school districts. The Council sets the rates through an annual calculation process based upon actuarially determined rates by school district. Each school district pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of individual account balance. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of its deficiency and its premiums are adjusted to cover its share of the additional cost of anticipated future claims. Upon termination, the terminating school district would be liable for all outstanding claims beyond its individual account balance. The Council has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. The member districts assume the risk of loss up to the limits of the (Medical Mutual of Ohio's) policy. The Council covers the following risks:

- Health insurance;
- Dental;
- Vision and;
- Prescription drug coverage.

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

	2003	2002
Cash and investments	\$4,608,000	\$5,055,000
Actuarial liabilities	\$3,600,000	\$3,100,000

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
Continued**

6. CASH POSITION OF MEMBER SCHOOL DISTRICTS

At June 30, the member school districts of the council had the following respective cash positions including their respective terminal liabilities:

<u>Member District</u>	<u>2003</u>	<u>2002</u>
Amherst EVSD	\$ 479,928	\$ 358,386
Avon Lake CSD	721,417	967,436
Avon LSD	265,673	582,592
Clearview CSD	(21,541)	11,478
Columbia LSD	44,767	114,616
Firelands LSD	625,309	392,074
Keystone LSD	561,482	591,824
Educational Service Center Of Lorain County	480,686	312,381
Lorain County JVS	416,080	314,659
Midview LSD	220,482	155,835
Oberlin CSD	232,534	327,364
Sheffield-Sheffield Lake LSD	912,616	802,638
Vermillion LSD	(308,151)	221,858
Wellington EVSD	<u>(732)</u>	<u>175,750</u>
Consortium Health Insurance Cash Balance at	<u>\$ 4,630,550</u>	<u>\$ 5,328,891</u>

Note: The member school district amounts presented above represent each member's terminal liability amounts, increased by premium payments made to the Council and reduced by claims paid as of June 30. These figures exclude claims incurred but not reported (IBNR) as of June 30.

7. SUBSEQUENT EVENTS

The Council has been informed that two (2) member school districts intend to withdraw from the health care program during fiscal year 2004. Management does not believe these withdrawals will impact the Council in any adverse manner.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY 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 Lake Erie Regional Council of Governments, Lorain County, Ohio (the Council) as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated December 22, 2003. 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.

Compliance

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 grants, 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*.

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 assurance 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 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Council's management in a separate letter dated December 22, 2003.

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.

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Betty Montgomery
Auditor of State

December 22, 2003



**Auditor of State
Betty Montgomery**

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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
JANUARY 22, 2004**