

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Lake Erie Regional Council of Governments
Elyria, Ohio

We have reviewed the Independent Auditor's Report of the Lake Erie Regional Council of Governments, Lorain County, prepared by James G. Zupka, C.P.A., Inc., for the audit period July 1, 2003 through June 30, 2004. 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

February 8, 2005

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LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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

Certified Public Accountants

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Garfield Hts., Ohio 44125

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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 Lake Erie Regional Council of Governments, Lorain County, Ohio (the Council) as of and for the year ended June 30, 2004. 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, 2004, and its cash receipts and cash disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 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 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 Section 117.26, Ohio Revised Code, 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

January 5, 2005

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Enterprise</u>
<u>Operating Receipts</u>	
Charges for Services	\$24,826,471
Earnings on Investments	<u>91,614</u>
Total Operating Receipts	<u>24,918,085</u>
 <u>Operating Disbursements</u>	
Salaries and Benefits	228,142
Claims Payments	20,475,615
Purchased Services	4,515,042
Supplies and Materials	17,417
Capital Outlay	4,252
Other Operating Disbursements	<u>6,676</u>
Total Operating Disbursements	<u>25,247,144</u>
Operating Loss	<u>(329,059)</u>
 <u>Non-Operating Receipts</u>	
Non-Operating Receipts	<u>90</u>
Total Non-Operating Receipts	<u>90</u>
Net Receipts Over/Under Disbursements	<u>(328,969)</u>
 Fund Cash Balances, Beginning of Year	<u>4,896,106</u>
 Fund Cash Balances, End of Year	<u><u>\$ 4,567,137</u></u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Entity

The Lake Erie Regional Council of Governments (the 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 contracts 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.

The basis of accounting is an “other comprehensive basis of accounting” (OCBOA) prescribed by the Auditor of State.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 accounting, 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.

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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 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:

	2004	2003
<i>Deposits</i>		
Demand Deposits	\$ 48,379	\$ 320,657
Certificates of Deposit	1,240,000	1,184,187
Money Markets	887,960	384,706
<i>Total Deposits</i>	<u>2,176,339</u>	<u>1,889,556</u>
 <i>Investments</i>		
STAROhio	9,648	69,462
U.S. Government Securities	2,381,150	2,937,094
<i>Total Investments</i>	<u>2,390,798</u>	<u>3,006,556</u>
Total Deposits and Investments	<u>\$ 4,567,137</u>	<u>\$ 4,896,106</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 STAROhio are not evidenced by securities that exist in physical or book entry form.

NOTE 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 3: **RETIREMENT SYSTEM** (Continued)

Employees contribute 10.0 percent of their gross salaries. The employer matching is 14 percent 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 2004, 9.09 percent was used to fund pension benefits and 4.91 percent was allocated to post employment benefits. The pension contribution requirements for the Council for the years ended June 30, 2004, June 30, 2003, and June 30, 2002 were \$20,738, \$17,908, and \$12,193, respectively.

NOTE 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 SERS, based on authority granted by State statute.

The portion of SERS employer contributions allocated to health care benefits as of June 30, 2004 was 4.91 percent. The Council's total contributions for health care benefits in fiscal year 2004, 2003, and 2002 were \$11,202, \$12,779, and \$19,070, respectively.

NOTE 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 twelve 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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 5: **RISK MANAGEMENT** (Continued)

Insurance Purchasing Pool (Continued)

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, 2004.

Cash and Investments	\$ 3,630,340
Actuarial Liabilities	3,600,000

NOTE 6: **CASH POSITION OF MEMBER SCHOOL DISTRICTS IN INSURANCE**

Purchasing Pool

At June 30, the member school districts of the Council's Health Insurance Purchasing Pool had the following respective cash positions, including their respective terminal liabilities:

<u>Member District</u>	<u>2004</u>
Amherst EVSD	\$ 487,146
Clearview CSD	(211,676)
Columbia LSD	134,119
Firelands LSD	674,848
Keystone LSD	553,791
Educational Service Center of Lorain County	558,225
Lorain County JVS	402,661
Midview LSD	266,280
Oberlin CSD	4,340
Sheffield-Sheffield Lake LSD	366,130
Vermilion LSD	384,797
Wellington EVSD	<u>9,679</u>
Consortium Health Insurance	
Cash Balance at June 30, 2004	<u>\$ 3,630,340</u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 6: **CASH POSITION OF MEMBER SCHOOL DISTRICTS** (Continued)

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.

NOTE 7: **SUBSEQUENT EVENTS**

The Council has been informed that one (1) of twelve (12) member school districts intends to withdraw from the health care program as of July 1, 2004. Management does not believe that this withdrawal will impact the Council in any adverse manner.

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**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 year ended June 30, 2004, and have issued our report thereon dated January 5, 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.

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 January 5, 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

January 5, 2005



**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
FEBRUARY 22, 2005**