

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

Board of Directors
Lake Erie Regional Council of Governments
1885 Lake Avenue
Elyria, Ohio 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, 2005 through June 30, 2006. 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 black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 4, 2007

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

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, 2006, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake Erie Regional Council of Governments, Lorain County, Ohio'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, 2006, 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 October 13, 2006, on our consideration of the Lake Erie Regional Council of Governments, Lorain County, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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

October 13, 2006

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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, 2006. 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 2006 are as follows:

- In total, net assets were \$10,371,168 at June 30, 2006.
- Operating cash receipts totaled \$29,189,479 in 2006 and cash operating disbursements were \$24,575,530 for fiscal year 2006. The Council also received \$271,290 in interest receipts during the year. Total change in cash net assets for fiscal year 2006 was an increase of \$4,885,239.

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 2006?". 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 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, 2006
(Unaudited)**

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.

The table below provides a summary of the Council's cash net assets at June 30, 2006 and June 30, 2005.

Table 1 - Net Cash Assets

	<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and Investments with Fiscal Agent	\$10,371,167	\$ 5,485,927
Total Assets	<u>10,371,167</u>	<u>5,485,927</u>
<u>Net Cash Assets</u>		
Unrestricted	<u>10,371,167</u>	<u>5,485,927</u>
Total Net Cash Assets	<u>\$10,371,167</u>	<u>\$ 5,485,927</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Council's net cash assets totaled \$10,371,167, an increase of \$4,885,240 over fiscal year 2005.

Table 2 shows the changes in net cash assets from fiscal year 2006 to fiscal year 2005:

Table 2 - Change in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Cash Receipts</u>				
Health Benefit Premium Deposits	\$ 23,438,460	\$ 20,086,010	\$ 3,352,450	16.69 %
Natural Gas Consortium Deposits	5,387,896	2,899,226	2,488,670	85.84 %
Life Insurance Premium Deposits	229,714	243,343	(13,629)	(5.60)%
Media Center Charges for Services	132,812	138,768	(5,956)	(4.29)%
Miscellaneous	597	14,582	(13,985)	(95.91)%
General Receipts	<u>271,290</u>	<u>98,090</u>	<u>173,200</u>	176.57 %
Total Cash Receipts	<u>29,460,769</u>	<u>23,480,019</u>	<u>5,980,750</u>	25.47 %
<u>Cash Disbursements</u>				
Salaries	215,005	223,027	(8,022)	3.60 %
Fringe Benefits	67,959	102,261	(34,302)	33.54 %
Claims	17,373,063	17,341,650	31,413	.18 %
Insurance Premiums	765,394	886,697	(121,303)	13.68 %
Natural Gas Purchases	5,125,495	2,954,790	2,170,705	73.46 %
Purchased Services	1,014,549	1,034,466	(19,917)	(1.93)%
Materials and Supplies	13,857	9,888	3,969	40.14 %
Capital Outlay	0	6,175	(6,175)	(100.00)%
Miscellaneous	208	2,270	(2,062)	(90.84)%
Total Cash Disbursements	<u>24,575,530</u>	<u>22,561,224</u>	<u>2,014,306</u>	8.93 %
<i>Increase in Net Cash Assets</i>	<u>\$ 4,885,239</u>	<u>\$ 918,795</u>	<u>\$ 3,966,444</u>	431.70 %

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)**

The decrease in operating cash receipts can be attributed to less money collected from health insurance premiums and increased natural gas deposits due to increased natural gas costs.

Operating cash disbursements increased by \$2,014,306. The increase can be attributed mainly to increased natural gas disbursements.

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 purchasing pool, and a claims servicing health insurance program. 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 is comprised of approximately eleven 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. 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 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, 2006**

	<u>Business-Type Activities</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Investments with Fiscal Agent	<u>\$ 10,371,167</u>
Total Assets	<u>10,371,167</u>
<u>Net Cash Assets</u>	
Unrestricted	<u>10,371,167</u>
Total Net Assets	<u>\$ 10,371,167</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, 2006**

		Program Cash Receipts			Net (Disbursements)
	Cash	Charges for Services and Sales	Contributions and Interest	Capital Grants and Contributions	Receipts and Changes in Net Assets
<u>Business-Type Activities</u>	<u>Disbursements</u>				<u>Total Business-Type Activities</u>
Insurance Purchasing Pool	\$ 18,979,044	\$ 23,438,460	\$ 0	\$ 0	\$ 4,459,416
Natural Gas Consortium	5,135,495	5,387,896	0	0	252,401
Other	460,991	363,123	0	0	(97,868)
Total Business-Type Activities	<u>\$24,575,530</u>	<u>\$29,189,479</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>4,613,949</u>
					<u>271,290</u>
					<u>271,290</u>
					4,885,239
					<u>5,485,928</u>
					<u>\$ 10,371,167</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, 2006**

	Business-Type Activities			
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	Total Enterprise Funds
<u>Assets</u>				
<u>Current Assets</u>				
Cash and Investments	\$ 9,749,527	\$ 554,427	\$ 67,213	\$10,371,167
Total Assets	<u>9,749,527</u>	<u>554,427</u>	<u>67,213</u>	<u>10,371,167</u>
<u>Net Cash Assets</u>				
Unrestricted	<u>9,749,527</u>	<u>554,427</u>	<u>67,213</u>	<u>10,371,167</u>
Total Net Assets	<u>\$ 9,749,527</u>	<u>\$ 554,427</u>	<u>\$ 67,213</u>	<u>\$10,371,167</u>

See accompanying notes to the basic financial statements.

**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, 2006**

	Business-Type Activities			Total Enterprise Funds
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	
Operating Cash Receipts				
Health Benefit Premium Deposits	\$23,438,460	\$ 0	\$ 0	\$23,438,460
Natural Gas Consortium Deposits	0	5,387,896	0	5,387,896
Life Insurance Premiums Deposits	0	0	229,714	229,714
Media Center Charges for Services	0	0	132,812	132,812
Miscellaneous	0	0	597	597
Total Operating Cash Receipts	<u>23,438,460</u>	<u>5,387,896</u>	<u>363,123</u>	<u>29,189,479</u>
Operating Cash Disbursements				
Salaries	149,047	0	65,958	215,005
Fringe Benefits	43,431	0	24,528	67,959
Claims	17,373,063	0	0	17,373,063
Insurance Premiums	541,349	0	224,045	765,394
Natural Gas Premiums	0	5,125,495	0	5,125,495
Purchased Services	867,778	10,000	136,771	1,014,549
Materials and Supplies	4,276	0	9,581	13,857
Miscellaneous	100	0	108	208
Total Operating Cash Disbursements	<u>18,979,044</u>	<u>5,135,495</u>	<u>460,991</u>	<u>24,575,530</u>
Excess of Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>4,459,416</u>	<u>252,401</u>	<u>(97,868)</u>	<u>4,613,949</u>
Non-Operating Cash Receipts/Disbursements				
Interest	254,605	11,430	5,255	271,290
Advances In	152,800	0	0	152,800
Transfers In	159,564	0	3	159,567
Transfers Out	(159,564)	0	(3)	(159,567)
Advances Out	0	(152,200)	(600)	(152,800)
Total Non-Operating Receipts/Disbursements	<u>407,405</u>	<u>(140,770)</u>	<u>4,655</u>	<u>271,290</u>
Increase (Decrease) in Net Cash Assets	4,866,821	111,631	(93,213)	4,885,239
Net Cash Assets at Beginning of Year	<u>4,882,706</u>	<u>442,796</u>	<u>160,426</u>	<u>5,485,928</u>
Net Cash Assets at End of Year	<u>\$ 9,749,527</u>	<u>\$ 554,427</u>	<u>\$ 67,213</u>	<u>\$10,371,167</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, 2006**

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 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, 2006, 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 claims servicing 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, 2006
(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, 2006
(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, 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, 2006
(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 \$3,803,790, including \$2,711,070 in certificates in deposits. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2006, \$3,821,001 of the Council's bank balance of \$3,058,330 was covered by Federal Depository Insurance and \$762,671 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, 2006, 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, 2006, fair market value was \$42,596 below net cost. 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, 2006
(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 64.79 percent of the Council's total investments. Cash and investments at June 30, 2006 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	\$ 556,239	AAA	\$ 556,239	\$ 0	\$ 0
U.S. Agencies	6,011,139	AAA	2,029,227	2,481,912	1,500,000
Totals	<u>\$ 6,567,378</u>		<u>\$ 2,585,466</u>	<u>\$ 2,481,912</u>	<u>\$ 1,500,000</u>

NOTE 4: BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2006 is as follows:

<u>Enterprise Fund Type</u>	<u>2006 Budgeted vs. Actual Receipts</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts	\$32,856,133	\$ 29,773,135	\$(3,082,998)
Expenditures	\$27,462,581	\$ 25,032,834	\$ 2,429,747

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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, 2006, the following fees were paid to the Educational Service Center by the Council:

<u>Service</u>	<u>Amount</u>
Media Center	\$ 11,642
Health Insurance	70,906
Natural Gas	10,000
Life Insurance	<u>5,752</u>
Total	<u>\$ 98,300</u>

NOTE 6: RISK MANAGEMENT

A. Insurance Purchasing Pool

Through December 31, 2005, the Council contracts with Medical Mutual of Ohio as a third-party administrator to process and pay health benefit claims for in hospital services. Outpatient services and physician charges were processed and paid by Council employees. Effective January 1, 2006, the Council contracted with Medial 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 districts. Processing charges are billed monthly and are charged to each district's account based on the number of prescriptions filled during the month. Payments are made monthly for premiums by the eleven member districts as established and approved by the Board of Directors. During fiscal year 2006, 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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

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

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, 2006. 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.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2006:

	2006	2005
Cash and Investments	\$ 9,504,384	\$ 5,035,506
Actuarial Liabilities	\$ 4,130,580	\$ 3,708,000

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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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

At June 30, 2006, 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	\$ 1,302,401
Clearview	(185,768)
Columbia	422,767
Firelands	1,621,975
Keystone	1,104,331
Educational Service Center of Lorain County	319,432
Lorain County JVS	305,911
Midview	1,134,688
Oberlin	369
Sheffield-Sheffield Lake	923,626
Vermilion	1,931,632
Wellington	623,020
Cash Balance as of June 30, 2006	<u>\$9,504,384</u>

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, 2006.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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, 2006 is as follows:

	<u>Media Center</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, 2005	\$156,098	\$ 4,882,706	\$ 442,796	\$ 4,325	\$ 3	\$5,485,928
Operating Receipts	132,812	23,438,460	5,387,896	229,714	597	29,189,479
Operating Disbursements	231,194	18,979,044	5,135,495	229,797	0	24,575,530
Operating Receipts Over (Under) Operating Disbursements	(98,382)	4,459,416	252,401	(83)	597	4,613,949
Non-Operating Receipts	5,255	407,405	11,430	0	0	424,090
Non-Operating Disbursements	0	0	(152,200)	0	(600)	(152,800)
Receipts Over (Under) Disbursements	(93,127)	4,866,821	111,631	(83)	(3)	4,885,239
Net Cash Assets June 30, 2006	62,971	9,749,527	554,427	4,242	0	10,371,167

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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 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, 2006, which collectively comprise the Lake Erie Regional Council of Governments' basic financial statements, and have issued our report thereon dated October 13, 2006. 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 Lake Erie Regional Council of Governments, Lorain County, Ohio'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 that might be material weaknesses. A material weakness is a reportable 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 Lake Erie Regional Council of Governments, Lorain County, Ohio'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 or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of the Lake Erie Regional Council of Governments, Lorain County, Ohio, in a separate letter dated October 13, 2006.

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

October 13, 2006



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
JANUARY 18, 2007**