



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2011  
Fiscal Year Audited Under GAGAS: 2011





# Dave Yost • 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, 2010 through June 30, 2011. 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 "Dave Yost".

Dave Yost  
Auditor of State

November 30, 2011

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**Lake Erie Regional Council of Governments**  
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*For the Fiscal Year Ended June 30, 2011*

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# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Independent Auditor's Report

Members of Council  
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, the 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, 2011, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

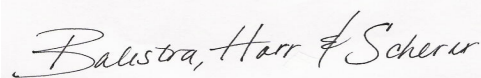
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the modified 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 financial position of the business-type activities, the major fund and the aggregate remaining fund information of Lake Erie Regional Council of Governments, Lorain County, Ohio, as of June 30, 2011, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



Balestra, Harr & Scherer, CPAs, Inc.  
September 2, 2011



LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(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, 2011. The intent of this discussion and analysis is to look at the Council's financial performance as a whole. Readers should also review the modified 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 2011 are as follows:

- In total, net assets were \$ 10,527,606 at June 30, 2011.
- Program cash receipts totaled \$ 18,856,679 in 2011 and program cash disbursements were \$ 19,652,662 for fiscal year 2011. The Council also received \$ 204,426 in interest receipts during the year. Total change in cash net assets for fiscal year 2011 was a decrease of \$ 591,557.

**Reporting the Council's Financial Activities**

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2011? The Statement of Net Assets – Modified Cash Basis and The Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Modified Cash Basis answers this question. These statements include only net assets using the modified 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 modified cash basis. This change in net cash assets is important because it tells the reader that, for the Council as a whole, the modified cash basis financial position of the Council has improved or diminished.

As a result of the use of the modified 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 modified cash basis of accounting.

The Statement of Net Assets – Modified 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, 2011  
(Unaudited)

The table below provides a summary of the Council's cash net assets at June 30, 2011 and June 30, 2010.

**Table 1 - Net Cash Assets**

	Business-type Activities	
	2011	2010
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents with Fiscal Agent	\$ 2,860,197	\$ 3,630,257
Investments with fiscal agent	7,667,409	7,488,906
<b>Total assets</b>	<b>10,527,606</b>	<b>11,119,163</b>
<b>Net assets</b>		
Unrestricted	10,527,606	11,119,163
<b>Total net assets</b>	<b>\$ 10,527,606</b>	<b>\$ 11,119,163</b>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Council's net cash assets totaled \$ 10,527,606, a decrease of \$ 591,557 from fiscal year 2010.

Table 2 shows the changes in net cash assets from fiscal year 2011 to fiscal year 2010:

**Table 2 - Change in Net Assets**

	2011	2010	Increase (Decrease)
<b>Cash receipts</b>			
Health benefit premium deposits	\$ 18,669,612	\$ 15,530,839	\$ 3,138,773
Life insurance premium deposits	187,067	186,234	833
Interest	204,426	301,176	(96,750)
<b>Total cash receipts</b>	<b>19,061,105</b>	<b>16,018,249</b>	<b>3,042,856</b>
<b>Cash disbursements</b>			
Salaries	59,891	57,849	2,042
Fringe benefits	197,356	205,176	(7,820)
Claims	18,000,942	15,582,649	2,418,293
Insurance premiums	546,151	500,381	45,770
Purchased services	842,832	1,036,091	(193,259)
Materials and supplies	5,390	7,958	(2,568)
Refund of excess reserves	100	15,093	(14,993)
<b>Total cash disbursements</b>	<b>19,652,662</b>	<b>17,405,197</b>	<b>2,247,465</b>
<b>Decrease in net cash assets</b>	<b>\$ (591,557)</b>	<b>\$ (1,386,948)</b>	<b>\$ 795,391</b>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

The increase of \$3,139,606 in operating cash receipts can be attributed primarily to a two month "holiday" on health insurance premiums in 2010 and only a one month holiday in 2011.

Operating cash disbursements increased by \$2,247,465. The net increase can be attributed mainly to disbursements for claims.

**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 2011 the Council offered a claims servicing health insurance program and a life insurance purchasing pool. 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. 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 and treasurer, or designated representative, from each participating district. 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., Elyria, Ohio 44035 or by calling 440-324-5777.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS  
JUNE 30, 2011

	Business-type Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents with Fiscal Agent	\$ 2,860,197
Investments with fiscal agent	7,667,409
Total assets	10,527,606
 <b>Net assets</b>	
Unrestricted	10,527,606
Total net assets	\$ 10,527,606

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Cash Disbursements	Program Cash Receipts			Net (Disbursements Receipts and Changes in Net Assets)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contribution	
Business-type activities					
Insurance purchasing pool	\$ 19,469,767	\$ 18,669,612	\$ -	\$ -	\$ (800,155)
Other	182,895	187,067	-	-	4,172
Total business-type activities	<u>\$ 19,652,662</u>	<u>18,856,679</u>	<u>-</u>	<u>-</u>	<u>(795,983)</u>
			General receipts		
			Interest		204,426
			Total general receipts		<u>204,426</u>
			Change in net assets		(591,557)
			Net assets at beginning of year		11,119,163
			Net assets at end of year		<u>\$ 10,527,606</u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
STATEMENT OF FUND NET ASSETS – MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents with Fiscal Agent	\$ 2,857,171	\$ 3,026	\$ 2,860,197
Investments with fiscal agent	<u>7,659,435</u>	<u>7,974</u>	<u>7,667,409</u>
Total assets	<u><u>10,516,606</u></u>	<u><u>11,000</u></u>	<u><u>10,527,606</u></u>
<b>Net assets</b>			
Unrestricted	<u>10,516,606</u>	<u>11,000</u>	<u>10,527,606</u>
Total net assets	<u><u>\$ 10,516,606</u></u>	<u><u>\$ 11,000</u></u>	<u><u>\$ 10,527,606</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH ASSETS – MODIFIED CASH BASIS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Insurance Purchasing Pool	Nonmajor Enterprise Funds	Total Enterprise Funds
Operating cash receipts			
Health benefit premium deposits	\$ 18,669,612	\$ -	\$ 18,669,612
Life insurance premium deposits	-	187,067	187,067
Total operating cash receipts	<u>18,669,612</u>	<u>187,067</u>	<u>18,856,679</u>
Operating cash disbursements			
Salaries	59,891	-	59,891
Fringe benefits	14,461	182,895	197,356
Claims	18,000,942	-	18,000,942
Insurance premiums	546,151	-	546,151
Purchased services	842,832	-	842,832
Materials and supplies	5,390	-	5,390
Refund of excess reserves	100	-	100
Total operating cash disbursements	<u>19,469,767</u>	<u>182,895</u>	<u>19,652,662</u>
Excess of operating cash receipts over (under) operating cash disbursements	<u>(800,155)</u>	<u>4,172</u>	<u>(795,983)</u>
Non-operating cash receipts / disbursements			
Interest	204,426	-	204,426
Total non-operating cash receipts / disbursements	<u>204,426</u>	<u>-</u>	<u>204,426</u>
Increase (decrease) in net cash assets	(595,729)	4,172	(591,557)
Net cash assets at beginning of year	<u>11,112,335</u>	<u>6,828</u>	<u>11,119,163</u>
Net cash assets at end of year	<u><u>\$ 10,516,606</u></u>	<u><u>\$ 11,000</u></u>	<u><u>\$ 10,527,606</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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. 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, 2011, there were ten 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

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied to the extent they do not conflict with or contradict GASB pronouncements, in which case GASB prevails. The Council does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Council's accounting policies.

A. BASIS OF PRESENTATION

The Council's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide more a more detailed level of financial information.



LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Council as a whole. These statements include financial activities of the primary government, except for fiduciary funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash and investment balances, of the business-type activities of the Council at year end. The statement of activities compares disbursements with program receipts for each function or program of the Council's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Council is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from Council general receipts.

Fund Financial Statements

During the fiscal year, the Council segregates transactions related to certain Council functions or activities in separate funds to aid financial management and demonstrate legal compliance. Fund financial statements are designed to present financial information of the Council at this more detailed level. The focus of enterprise fund statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principle services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. FUND ACCOUNTING

The Council uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. 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, 2011, 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.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING

The financial statements follow the modified cash basis of accounting except for the modification of investments with fiscal agent described in Note 2 E. 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). Because the Council reports investments in the financial statements the basis of accounting is modified cash.

As a result of the use of the modified 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.

D. 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.

E. CASH, CASH EQUIVALENTS AND INVESTMENTS WITH FISCAL AGENT

The Educational Service Center of Lorain County (the "Service Center") serves as the fiscal agent for the Council. To improve cash management, cash received by the Council is pooled and invested. To maintain individual fund integrity the Service Center maintains the Council's financial activity on the Service Center's books under specific funds designated for Council activity. Interest in the pool that is not classified as investments as described in the following paragraph is presented as "Equity in Pooled Cash and Cash Equivalents with Fiscal Agent".

The Treasurer of the Service Center, acting as custodian of Council funds, invests monies on behalf of the Council. Investments with original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents with Fiscal Agent". Investments with an initial maturity of more than three months are reported as "Investments with Fiscal Agent".

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. CASH, CASH EQUIVALENTS AND INVESTMENTS WITH FISCAL AGENT (continued)

Investments are reported as assets. Accordingly purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

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 cost value.

An analysis of the Council's cash and investments with its fiscal agent at fiscal year-end is provided in Note 3.

NOTE 3 DEPOSITS AND INVESTMENTS WITH FISCAL AGENT

*Fiscal Agent.* The Educational Service Center of Lorain County serves as the fiscal agent for the Council.

*Deposits.* At fiscal year end, the carrying amount of the Council's deposits was \$ 2,860,197 including \$ 1,495,112 in certificates in deposits, and the bank balance was \$ 2,968,912. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2011, \$ 1,657,942 of the Council's bank balance was covered by Federal Depository Insurance and \$ 1,310,970 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, 2011, 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 cost value. At June 30, 2011, cost value of investments was \$ 7,667,409.

*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, 2011

NOTE 3 DEPOSITS 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 94.3 percent of the Council's total investments. Investments at June 30, 2011 were as follows:

	Cost Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 438,653	AAAm	\$ 438,653	\$ -	\$ -
U.S. Agencies	7,228,756	AAA	1,052,801	428,957	5,746,998
Total	<u>\$ 7,667,409</u>		<u>\$ 1,491,454</u>	<u>\$ 428,957</u>	<u>\$ 5,746,998</u>

NOTE 4 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2011 is as follows, which includes encumbrances of \$ 439,802:

2011 Budgeted vs. Actual			
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 19,061,105</u>	<u>\$ 19,061,105</u>	<u>\$ -</u>
Expenditures	<u>\$ 20,092,464</u>	<u>\$ 20,092,464</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, 2011

**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, 2011 the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Health Insurance	\$ 66,758
Life Insurance	3,194
Total	\$ 69,952

**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.

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 2011, the Council purchased specific stop-loss coverage of \$ 225,000 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, 2011:

	2011	2010
Cash and Investments	\$ 10,516,606	\$ 11,112,335
Actuarial Liabilities	\$ 3,229,000	\$ 2,975,000

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 RISK MANAGEMENT (continued)

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.

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, 2011 is as follows:

	<u>Insurance Purchasing Pool</u>	<u>Life Insurance</u>	<u>Total Enterprise Funds</u>
Net cash assets, June 30, 2010	\$ 11,112,335	\$ 6,828	\$ 11,119,163
Operating receipts	18,669,612	187,067	18,856,679
Operating disbursements	19,469,767	182,895	19,652,662
Operating receipts over (under) operating disbursements	(800,155)	4,172	(795,983)
Non-operating: Receipts	204,426	-	204,426
Increase (decrease) in net cash assets	(595,729)	4,172	(591,557)
Net cash assets, June 30, 2011	<u>\$ 10,516,606</u>	<u>\$ 11,000</u>	<u>\$ 10,527,606</u>



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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

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

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of Lake Erie Regional Council of Governments, Lorain County, Ohio, (the Council), as of and for the year ended June 30, 2011, which collectively comprise the Council's basic financial statements and have issued our report thereon dated September 2, 2011, wherein we noted the Council uses a comprehensive accounting basis other than generally accepted accounting principles. 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' *Governmental 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 opinion on the financial statements, but not for the purpose of opining 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.

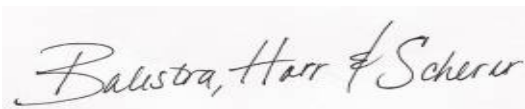
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 are required to be reported under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, members of the Board, and others within the entity. 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 dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
September 2, 2011





# Dave Yost • 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  
DECEMBER 13, 2011**