

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2016**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

Board of Directors  
Lake Erie Regional Council of Governments  
1885 Lake Avenue  
Elyria, OH 44035

We have reviewed the *Independent Auditor's Report* of the Lake Erie Regional Council of Governments, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2015 through June 30, 2016. 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, 2016

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125

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**INDEPENDENT AUDITOR'S REPORT**

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

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activity of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash accounting basis is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lake Erie Regional Council of Governments, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activity of the Lake Erie Regional Council of Governments, Ohio, as of June 30, 2016, and the respective changes in cash financial position thereof for the year then ended in accordance with the basis of accounting described in Note 2.

### ***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

### ***Other Matters***

We applied no procedures to the Management's Discussion and Analysis and the Claims Development information as listed on the Table of Contents. Accordingly we express no opinion or any other assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the Lake Erie Regional Council of Governments, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake Erie Regional Council of Governments, Ohio's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

September 20, 2016



LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, 2016. 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 2016 are as follows:

- In total, net position was \$ 13,016,673 at June 30, 2016.
- Program cash receipts totaled \$ 27,872,370 in 2016 and program cash disbursements were \$ 24,882,347 for fiscal year 2016. The Council also received \$ 82,189 in interest receipts during the year. Total change in cash net position for fiscal year 2016 was an increase of \$ 3,072,212.

### **Using this Annual Financial Report**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement Nos. 34, as applicable to the Council's cash basis of accounting. The report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Council as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions on the cash basis of accounting.

The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis provide information about the activities of the whole Council, presenting an aggregate view of the Council's finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending.

### **Reporting the Board as a Whole**

#### **Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis**

These documents look at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements include only net position 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 position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Council as a whole, the financial position of the Council has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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) and deferred inflows/outflows of resources 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, 2016

**Reporting the Council's Fund Financial Statements**

**Fund Financial Statements**

Fund financial statements provide detailed information about the Council. The Council's activities are reported in the fund financial statements, which focus on how money flows and the balance left at year end available for spending in future periods. These fund financial statements are reported on a cash basis of accounting. The fund financial statements provide a detailed short-term view of the Council's operations and the services they provide.

**The Council as a Whole**

The table below provides a summary of the Council's cash net position at June 30, 2016 and June 30, 2015.

**Table 1 - Net Cash Position**

|  | 2016                 | 2015                |
|--|----------------------|---------------------|
| Assets                                 |                      |                     |
| Cash and investments with fiscal agent | \$ 13,016,673        | \$ 9,944,461        |
| Total assets                           | <u>13,016,673</u>    | <u>9,944,461</u>    |
| Net position                           |                      |                     |
| Unrestricted                           | 13,016,673           | 9,944,461           |
| Total net position                     | <u>\$ 13,016,673</u> | <u>\$ 9,944,461</u> |

Net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Council's net position totaled \$ 13,016,673, an increase of \$ 3,072,212 from fiscal year 2015.

Table 2 shows the changes in net position from fiscal year 2015 to fiscal year 2016:

**Table 2 - Change in Net Position**

|  | 2016                | 2015                | Increase<br>(Decrease) |
|--|---------------------|---------------------|------------------------|
| Cash receipts                            |                     |                     |                        |
| Health benefit premium deposits          | \$ 27,872,370       | \$ 25,485,686       | 2,386,684              |
| Interest                                 | 82,189              | 87,710              | (5,521)                |
| Total cash receipts                      | <u>27,954,559</u>   | <u>25,573,396</u>   | <u>2,381,163</u>       |
| Cash disbursements                       |                     |                     |                        |
| Salaries                                 | 27,256              | 24,770              | 2,486                  |
| Fringe benefits                          | 4,772               | 3,927               | 845                    |
| Claims                                   | 22,501,965          | 24,052,850          | (1,550,885)            |
| Insurance premiums                       | 919,836             | 830,263             | 89,573                 |
| Purchased services                       | 1,400,552           | 1,529,627           | (129,075)              |
| Materials and supplies                   | 27,966              | 30,211              | (2,245)                |
| Capital outlay                           | -                   | 687                 | (687)                  |
| Total cash disbursements                 | <u>24,882,347</u>   | <u>26,472,335</u>   | <u>(1,589,988)</u>     |
| Increase (decrease) in net cash position | <u>\$ 3,072,212</u> | <u>\$ (898,939)</u> | <u>\$ 3,971,151</u>    |

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating cash receipts in 2016 were \$ 2,386,684 higher than in 2015 due to an increase in premium costs.

Operating cash disbursements decreased by \$ 1,589,988. The net decrease can be attributed mainly to a decrease of \$ 1,550,885 for claims, which can vary from year to year.

**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 2016 the Council offered 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 only service offered by the Council is the health insurance claims servicing pool, a self-funded, self-administered insurance program. 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., Lorain, Ohio 44035 or by calling 440-324-5777.

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LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF NET POSITION – CASH BASIS  
PROPRIETARY FUND

JUNE 30, 2016

|  | <u>Business-type<br/>Activities</u> |
|--|-------------------------------------|
| Assets                                 |                                     |
| Cash and investments with fiscal agent | <u>\$ 13,016,673</u>                |
| Total assets                           | <u>13,016,673</u>                   |
| <br>                                   |                                     |
| Net position                           |                                     |
| Unrestricted                           | 13,016,673                          |
| Total net position                     | <u>\$ 13,016,673</u>                |

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS  
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2016

|                                   | <u>Cash<br/>Disbursements</u> | <u>Program<br/>Cash Receipts<br/>Charges for<br/>Services<br/>and Sales</u> | <u>Net<br/>(Disbursements)<br/>Receipts and<br/>Changes in<br/>Net Position</u> |
|-----------------------------------|-------------------------------|---|---|
| Business-type activities          |                               |   |   |
| Insurance purchasing pool         | \$ 24,882,347                 | 27,872,370  | 2,990,023   |
| Total business-type activities    | <u>\$ 24,882,347</u>          | <u>\$ 27,872,370</u>  | <u>2,990,023</u>  |
| General receipts                  |                               |   |   |
| Interest                          |                               |   | 82,189  |
| Total general receipts            |                               |   | <u>82,189</u>   |
| Change in net position            |                               |   | 3,072,212   |
| Net position at beginning of year |                               |   | 9,944,461   |
| Net position at end of year       |                               |   | <u>\$ 13,016,673</u>  |

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET POSITION – CASH BASIS  
PROPRIETARY FUND

JUNE 30, 2016

|  | <u>Insurance<br/>Purchasing Pool</u> |
|--|--------------------------------------|
| Assets                                 |                                      |
| Cash and investments with fiscal agent | <u>\$ 13,016,673</u>                 |
| Total assets                           | <u>13,016,673</u>                    |
| <br>                                   |                                      |
| Net position                           |                                      |
| Unrestricted                           | <u>13,016,673</u>                    |
| Total net position                     | <u>\$ 13,016,673</u>                 |

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION –  
CASH BASIS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2016

|   | Purchasing Pool |
|---|-----------------|
| Operating cash receipts   |                 |
| Health benefit premium deposits                                   | \$ 27,872,370   |
| Total operating cash receipts                                     | 27,872,370      |
| Operating cash disbursements                                      |                 |
| Salaries  | 27,256          |
| Fringe benefits   | 4,772           |
| Claims  | 22,501,965      |
| Insurance premiums  | 919,836         |
| Purchased services  | 1,400,552       |
| Materials and supplies  | 27,966          |
| Total operating cash disbursements                                | 24,882,347      |
| Excess of operating receipts over<br>operating cash disbursements | 2,990,023       |
| Non-operating cash receipts                                       |                 |
| Interest  | 82,189          |
| Total non-operating cash receipts                                 | 82,189          |
| Increase in net cash position                                     | 3,072,212       |
| Net cash position at beginning of year                            | 9,944,461       |
| Net cash position at end of year                                  | \$ 13,016,673   |

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, 2016

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. During the year ended June 30, 2016, the Council offered 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, 2016, there were eleven 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.

The Council offers 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 eleven Lorain County school districts, including the Educational Service Center. The pool was formed to carry out a cooperative program for the provision and administration of health care benefits. Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. The pool premiums are billed to each participating school district based on actuarially determined rates. Claims are paid for all participants regardless of claims flow or individual account balance. The Council receives an actuarial opinion statement annually assessing the claims liability of the insurance purchasing pool.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The financial statements follow the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, accrued expenses and liabilities) and deferred inflows/outflows of resources are not recorded in these financial statements.

Operating receipts are those receipts that are generated directly from the primary activity of the Council. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Council. All receipts and disbursements not meeting these definitions are reported as non-operating.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ( continued)

B. FUND ACCOUNTING

The Council maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of the government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an 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 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, 2016, the Council’s major enterprise fund was as follows:

Insurance Purchasing Pool – This enterprise fund is used to account for revenues collected from the participating members to pay all related medical claims incurred during the year.

C. BUDGETARY PROCESS

The Council is not required to follow the budgetary process, but has decided to adopt a formal budget annually.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level and appropriations may not exceed estimated resources. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

Encumbrances - The Council reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

D. CASH AND INVESTMENTS WITH FISCAL AGENT

The Educational Service Center of Lorain County (the “Service Center”) serves as the fiscal agent for the Council. The Service Center maintains the Council’s financial activity on the Service Center’s books under a specific fund designed for Council activity. The Treasurer of the Service Center, acting as custodian of Council funds, invests monies on behalf of the Council. Investments maintained by the Service Center as fiscal agent are 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 4.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, "Fair Value Measurement and Application" The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The implementation of GASB Statement No. 72 did not have an effect on the financial statement of the School District.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees<sup>1</sup> and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations. The implementation of GASB Statement No. 73 did not have an effect on the financial statement of the School District.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statement of the School District.

NOTE 4: 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 \$ 6,828,408 including \$ 3,786,000 in certificates of deposits, and the bank balance was \$ 6,992,982. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2016, \$ 4,040,267 of the Council's bank balance was covered by Federal Depository Insurance and \$ 2,952,715 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.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4: CASH AND INVESTMENTS WITH FISCAL AGENT (continued)

Investments - As of June 30, 2016, 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, 2016, fair market value of investments was \$ 6,188,265. 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.

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 79.9 percent of the Council's total investments. Investments at June 30, 2016 were as follows:

|               | Fair Value          | Credit Rating | Investment Maturities |                     |                   |
|---------------|---------------------|---------------|-----------------------|---------------------|-------------------|
|               |                     |               | < 1 Year              | 1 - 2 Years         | 3 - 5 Years       |
| STAROhio      | \$ 1,242,299        | AAAm          | \$ 1,242,299          | \$ -                | \$ -              |
| U.S. Agencies | 4,945,966           | AAA           | 1,483,038             | 2,877,944           | 584,984           |
| Total         | <u>\$ 6,188,265</u> |               | <u>\$ 2,725,337</u>   | <u>\$ 2,877,944</u> | <u>\$ 584,984</u> |

NOTE 5 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2016 is as follows, which includes current encumbrances of \$ 52,987:

|                             | 2016 Budgeted vs. Actual |                      |             |
|-----------------------------|--------------------------|----------------------|-------------|
|                             | Budget                   | Actual               | Variance    |
| <u>Enterprise Fund Type</u> |                          |                      |             |
| Receipts                    | <u>\$ 27,954,559</u>     | <u>\$ 27,954,559</u> | <u>\$ -</u> |
| Expenditures                | <u>\$ 24,935,334</u>     | <u>\$ 24,935,334</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, 2016

NOTE 6 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, 2016, the following fees were paid to the Educational Service Center by the Council:

| <u>Service</u>   | <u>Amount</u>    |
|------------------|------------------|
| Health Insurance | \$ 68,920        |
| Administration   | 5,750            |
| Total            | <u>\$ 74,670</u> |

NOTE 7 RISK MANAGEMENT

A. INSURANCE PURCHASING POOL

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. Effective July 1, 2013 dental and vision claims are processed and paid by Medical Mutual of Ohio. 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 eleven Lorain County school districts, including the Educational Service Center. Payments are made monthly for premiums by the eleven member districts as established and approved by the Board of Directors. During fiscal year 2016, the Council purchased specific stop-loss coverage of \$ 250,000 per individual. The fiscal agent treasurer makes monthly payments to the third party administrator for administrative charges as per the agreement. 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, 2016:

|                       | <u>2016</u>   | <u>2015</u>  |
|-----------------------|---------------|--------------|
| Cash and Investments  | \$ 13,016,673 | \$ 9,944,461 |
| Actuarial Liabilities | \$ 3,177,000  | \$ 3,168,000 |

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 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 8 SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO

SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION

|                                   | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>6/30/2014</u> | <u>6/30/2013</u> |
|-----------------------------------|------------------|------------------|------------------|------------------|
| 1. Premium and investment income  | \$ 27,954,559    | \$ 25,573,396    | \$ 25,142,074    | \$ 20,390,499    |
| 2. Unallocated cash disbursements | 2,380,382        | 2,419,485        | 2,072,572        | 1,604,984        |
| 3. Claims disbursements           | 22,501,965       | 24,052,850       | 23,122,726       | 18,771,598       |
| 4. Claims paid, cumulative as of: |                  |                  |                  |                  |
| End of policy year                | N/Av             | N/Av             | N/Av             | N/Av             |
| One year later                    |                  | N/Av             | N/Av             | N/Av             |
| Two years later                   |                  |                  | N/Av             | N/Av             |
| Three years later                 |                  |                  |                  | N/Av             |
| Four years later                  |                  |                  |                  |                  |
| Five years later                  |                  |                  |                  |                  |
| Six years later                   |                  |                  |                  |                  |
| Seven years later                 |                  |                  |                  |                  |
| Eight years later                 |                  |                  |                  |                  |
| Nine years later                  |                  |                  |                  |                  |

1. This line shows the total of each fiscal year's gross premiums received and interest income.
2. This line shows non-claim related cash disbursements for each fiscal year.
3. This line shows claim disbursements for each fiscal year.
4. This section shows the cumulative net amount of claims paid as of the end of the fiscal year.

N/Av - Data not available as of June 30 of each period

The Council reports on the cash basis of accounting. Premium and investment income are recorded when received and unallocated cash disbursements and claim disbursements are recorded when paid by the Council. A claims liability is not recorded under the Council's cash basis of accounting. The health insurance program became fully pooled effective July 1, 2007.



| <u>6/30/2012</u> | <u>6/30/2011</u> | <u>6/30/2010</u> | <u>6/30/2009</u> | <u>6/30/2008</u> |
|------------------|------------------|------------------|------------------|------------------|
| \$ 20,066,985    | \$ 18,874,038    | \$ 15,832,015    | \$ 18,455,721    | \$ 16,372,026    |
| 1,568,014        | 1,468,825        | 1,623,364        | 2,586,818        | 5,917,070        |
| 18,133,439       | 18,000,942       | 15,582,649       | 14,154,079       | 13,865,125       |
| N/Av             | N/Av             | N/Av             | N/Av             | N/Av             |
| N/Av             | N/Av             | N/Av             | N/Av             | N/Av             |
| N/Av             | N/Av             | N/Av             | N/Av             | N/Av             |
| N/Av             | N/Av             | N/Av             | N/Av             | N/Av             |
| N/Av             | N/Av             | N/Av             | N/Av             | N/Av             |
|                  | N/Av             | N/Av             | N/Av             | N/Av             |
|                  |                  | N/Av             | N/Av             | N/Av             |
|                  |                  |                  | N/Av             | N/Av             |
|                  |                  |                  |                  | N/Av             |

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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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**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**

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

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited, in accordance with the 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, the financial statements of the business-type activity of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lake Erie Regional Council of Governments, Ohio's basic financial statements and have issued our report thereon dated September 20, 2016, wherein we noted that the Lake Erie Regional Council of Governments, Ohio, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lake Erie Regional Council of Governments, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake Erie Regional Council of Governments, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake Erie Regional Council of Governments, Ohio's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lake Erie Regional Council of Governments, Ohio's financial statements are free from 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*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lake Erie Regional Council of Governments, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

September 20, 2016

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS  
LORAIN COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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The prior audit report, as of June 30, 2015, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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# 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, 2016