



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Directors:

We have audited the accompanying financial statements of Lake Erie Regional Council of Governments, Lorain County, (Council) as of and for the years ended June 30, 1999 and June 30, 1998. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 described in Note 1, the Council prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of Lake Erie Regional Council of Governments, Lorain County, as of June 30, 1999 and June 30, 1998, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 1999 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

JIM PETRO
Auditor of State

December 10, 1999

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND FUND CASH BALANCES - PROPRIETARY FUND TYPE -
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	<u>Enterprise</u>	<u>Enterprise</u>
	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Operating Receipts:		
Charges for Services	\$10,317,359	\$11,148,326
Earnings on Investments	<u>423,736</u>	<u>450,615</u>
Total Operating Receipts	<u>10,741,095</u>	<u>11,598,941</u>
Operating Disbursements:		
Salaries and Benefits	232,421	212,926
Claims Payments	9,687,983	8,339,717
Purchased Services	1,925,402	2,003,014
Supplies and Materials	20,619	13,191
Capital Outlay	53,245	43,730
Other Operating Disbursements	<u>1,710</u>	<u>3,998</u>
Total Operating Disbursements	<u>11,921,380</u>	<u>10,616,576</u>
Operating Income/(Loss)	<u>(1,180,285)</u>	<u>982,365</u>
Non-operating Receipts:		
Other Non-operating Receipts	<u>0</u>	<u>2,520</u>
Total Non-operating Receipts	<u>0</u>	<u>2,520</u>
Non-operating Disbursements:		
Other Non-operating Disbursements	<u>218</u>	<u>0</u>
Total Non-operating Disbursements	<u>218</u>	<u>0</u>
Net Receipts Over/(Under) Disbursements	(1,180,503)	984,885
Fund Cash Balances, July 1	<u>8,990,467</u>	<u>8,005,582</u>
Fund Cash Balances, June 30	<u>\$7,809,964</u>	<u>\$8,990,467</u>
Reserve for Encumbrances, June 30	<u>\$170,456</u>	<u>\$86,566</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

The Lake Erie Regional Council of Governments (Council) is a council of governments established under Ohio Rev. Code Section 167. The Council is an organization among seventeen school districts throughout northern Ohio. The Council, is governed by a seven-member Board of Directors (Board) and provides administrative services for life, disability, and health care benefits for the employees of its participating member school districts. The Council also negotiates on the behalf of its members to contract for property and casualty insurance, floor covering, natural gas, and provides teachers access to a media center for instructional support and operates a cooperative purchasing program and a mail courier service among member school districts.

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

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

Reporting Entity

The Council is a primary government and constitutes the entire reporting entity.

Basis of Accounting

The Council prepares its financial statements on the cash basis of accounting. Excluded from the financial statements are: receivables and corresponding accrued revenues, payables and corresponding expenditures, inventories, and fixed assets.

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

Fund Accounting

The Council maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements.

The transactions of the fund are reflected in a self-balancing group of accounts. The restrictions associated with the fund is as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Proprietary Fund

Enterprise Fund: To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Budgetary Process

The Council is bound by the budgetary requirements as prescribed by their Bylaws.

Estimated Council Costs

At its November meeting, the Assembly determines the total estimated Council Costs for the next fiscal year, identifying costs for each program and the portion to be allocated to each member.

Appropriations

At the November meeting, the Assembly determines and approves the annual appropriations of the Council for the next fiscal year based on the estimate of Council Costs. Appropriations may be amended provided the proposal is within the limits of the Council's resources.

Encumbrances

The Council encumbers purchase commitments to reserve appropriations. Encumbrances outstanding at year end are carried forward to the subsequent year and need not be reappropriated.

A summary of fiscal 1999 and 1998 budgetary activity appears in Note 3.

Investments and Inactive Funds

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

Property, Plant and Equipment

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

2. POOLED CASH AND EQUIVALENTS

The fund balances are expressed in cash equivalents. Cash equivalents are available for immediate expenditure, or liquid investments which are immediately marketable, have negligible credit risk, and mature within three months. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
Continued

2. POOLED CASH AND EQUIVALENTS (Continued)

Deposits

At June 30, 1999, the carrying amount of the Council's deposits was \$(36,737) and the bank balance was \$87,800. Of the bank balance, \$64,325 was covered by the Federal Depository Insurance Corporation; and the remainder was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

At June 30, 1998, the carrying amount of the Council's deposits was \$2,697,148 and the bank balance was \$2,832,149. Of the bank balance, \$375,001 was covered by the Federal Depository Insurance Corporation; and the remainder was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments

The Council's investments are categorized below to give an indication of the level of risk assumed by the Council at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Council or its agent in the Council's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Council's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Council's name. The Council's investments are categorized below to give an indication of the level of risk assumed by the Council at year end:

1999	Category 3	Carrying Value	Market Value
Money Market	\$ 31,975	\$ 31,975	\$ 31,975
Commercial Paper	1,326,606	1,326,606	1,326,606
U.S. Agency and Treasury Securities	<u>6,215,527</u>	<u>6,215,527</u>	<u>6,188,232</u>
Sub-total	<u>\$7,574,108</u>	<u>7,574,108</u>	<u>7,546,813</u>
STAR Ohio		<u>272,593</u>	<u>272,593</u>
Total Investments		<u>\$7,846,701</u>	<u>\$7,819,406</u>

1998	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$ 130,000	\$ 130,000	\$ 130,000
Money Market	494,520	494,520	494,520
Commercial Paper	1,257,240	1,257,240	1,257,240
U.S. Agency and Treasury Securities	<u>3,913,439</u>	<u>3,913,439</u>	<u>3,935,568</u>
Sub-total	<u>\$5,795,199</u>	<u>5,795,199</u>	<u>5,817,328</u>
STAR Ohio		<u>498,120</u>	<u>498,120</u>
Total Investments		<u>\$6,293,319</u>	<u>\$6,315,448</u>

The Council's investments in STAR Ohio, an investment pool operated by the Ohio State

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
Continued

Treasurer, are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 1999 and June 30, 1998 was as follows:

1999 Estimated Council Costs vs. Actual Council Costs

<u>Fund Type</u>	<u>Estimated Council Costs</u>	<u>Actual Council Costs</u>	<u>Variance</u>
Enterprise	\$20,283,363	\$10,741,095	\$9,542,268

1999 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$20,283,363	\$12,005,488	\$8,277,875

1998 Estimated Council Costs vs. Actual Council Costs

<u>Fund Type</u>	<u>Estimated Council Costs</u>	<u>Actual Council Costs</u>	<u>Variance</u>
Enterprise	\$19,787,632	\$11,601,461	\$8,186,171

1998 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$18,293,337	\$10,703,142	\$7,590,195

4. RETIREMENT SYSTEM

The Council contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based upon eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

Plan members are required to contribute 9.0% of their annual covered salary. The Council is required to contribute 14%; with 7.7% for fiscal 1999 and 9.79% for fiscal 1998, allocated to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The pension contribution requirement for the Council for the years ended June 30, 1999 and June 30, 1998 was \$38,997 and \$35,351, respectively.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
Continued

5. POST EMPLOYMENT BENEFITS

The Council provides comprehensive health care benefits to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The System is funded on a pay-as-you-go basis.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For fiscal year 1999, employer contributions to fund health care benefits were 6.3% of covered payroll, an increase from 4.98% for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal years 1999 and 1998, the minimum pay has been established as \$12,400. For the Council, the amount to fund health care benefits, including surcharge, for the years ended June 30, 1999 and June 30, 1998 equaled \$1,178 and \$992, respectively.

6. RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Council obtained commercial insurance for the following risks:

- Commercial Property and General Liability
- Commercial Inland Marine
- Professional Liability
- Commercial Auto
- Commercial Crime

The Council provides employees health insurance, dental, vision, prescription drug coverage, and life insurance. The Council's liability for health care is limited to the premiums paid.

7. YEAR 2000

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations.

The Council has completed an inventory of computer systems and other equipment necessary to conducting Council operations and has identified such systems as being financial reporting, payroll and employee benefits, and health insurance claims processing.

The Council's financial reporting, payroll and employee benefit operations are performed by the Educational Service Center of Lorain County, as fiscal agent. The Educational Service Center uses the State of Ohio Uniform School Accounting System software for the Council's financial reporting, and the State of Ohio Uniform Staff Payroll system software for payroll and employee benefits. The State of Ohio is responsible for remediating these systems. The Educational Service Center has been notified that as of September 1998, these systems are validated and tested and will be compliant with the Year 2000.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
Continued

7. YEAR 2000 (Continued)

The Council leases the healthcare management software for its insurance claims processing operations. Eldorado Computing, Inc. is responsible for remediating this system and has certified to the Council that the software is Year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Council is or will be Year 2000 ready, that the Council's remediation efforts will be successful in whole or in part, or that parties with whom the Council does business will be Year 2000 compliant.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

To the Board of Directors:

We have audited the financial statements of Lake Erie Regional Council as of and for the years ended June 30, 1999 and June 30, 1998, and have issued our report thereon dated December 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lake Erie Regional Councils' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake Erie Regional Councils' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 10, 1999.

This report is intended for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

JIM PETRO
Auditor of State

December 10, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2000**