



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2001 & 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Years Ended June 30, 2001 and 2000	3
Notes to the Financial Statements	5
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

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 the Lake Erie Regional Council of Governments, Lorain County, Ohio, (the Council) as of and for the years ended June 30, 2001 and June 30, 2000. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Council prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances and reserves for encumbrances of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of June 30, 2001 and June 30, 2000, 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 13, 2001 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

Jim Petro
Auditor of State

December 13, 2001

This page intentionally left blank.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND FUND CASH BALANCES - PROPRIETARY FUND TYPE -
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	<u>Enterprise</u>	<u>Enterprise</u>
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Operating Receipts:		
Charges for Services	\$11,991,308	\$10,819,141
Earnings on Investments	<u>377,179</u>	<u>452,248</u>
Total Operating Receipts	<u>12,368,487</u>	<u>11,271,389</u>
Operating Disbursements:		
Salaries and Benefits	219,376	186,546
Claims Payments	14,345,790	10,467,771
Purchased Services	888,680	968,388
Supplies and Materials	13,803	15,460
Capital Outlay	22,559	30,363
Other Operating Disbursements	<u>1,828</u>	<u>1,269</u>
Total Operating Disbursements	<u>15,492,036</u>	<u>11,669,797</u>
Operating Income/(Loss)	<u>(3,123,549)</u>	<u>(398,408)</u>
Non-operating Receipts:		
Other Non-operating Receipts	<u>936</u>	<u>0</u>
Total Non-operating Receipts	<u>936</u>	<u>0</u>
Non-operating Disbursements:		
Other Non-operating Disbursements	<u>0</u>	<u>0</u>
Total Non-operating Disbursements	<u>0</u>	<u>0</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	<u>(3,122,613)</u>	<u>(398,408)</u>
Transfers - In	0	0
Advances - In	21,000	36,000
Transfers - Out	0	0
Advances - Out	<u>(21,000)</u>	<u>(36,000)</u>
Net Receipts Over/(Under) Disbursements	<u>(3,122,613)</u>	<u>(398,408)</u>
Fund Cash Balances, July 1	<u>7,411,556</u>	<u>7,809,964</u>
Fund Cash Balances, June 30	<u>\$4,288,943</u>	<u>\$7,411,556</u>
Reserve for Encumbrances, June 30	<u>\$115,919</u>	<u>\$167,657</u>

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

This page intentionally left blank.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

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

B. Reporting Entity

The Lake Erie Regional Council of Governments is a primary government and constitutes the entire reporting entity.

C. Basis of Accounting

The Council prepares its financial statements on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when the liability is incurred. The operating statement is conceptually similar to a statement of cash flows. Excluded from the financial statements are: receivables and corresponding accrued revenues, payables and corresponding expenditures, inventories, and fixed assets.

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

D. Fund Accounting

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

The transactions of the fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with the fund is as follows:

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
Continued**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund

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

E. Budgetary Process

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

1. 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.

2. 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.

3. 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 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation (upon leaving employment or retirement) and sick leave (only upon retirement). Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Council.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Council invests in Certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
Continued**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

The carrying amount of cash and investments at June 30 was as follows:

	<u>2001</u>	<u>2000</u>
Demand deposits	\$258,592	\$238,049
Certificates of deposit	<u>967,013</u>	<u>390,000</u>
Total deposits	<u>1,225,605</u>	<u>628,049</u>
U.S. Treasury Notes	3,105,342	5,718,932
Repurchase agreement	190,000	450,000
STAR Ohio	66,787	63,036
Commercial Paper	<u>0</u>	<u>789,215</u>
Total investments	<u>3,362,129</u>	<u>7,021,183</u>
Total deposits and investments	<u><u>\$4,587,734</u></u>	<u><u>\$7,649,232</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the Council's financial institution. The financial institution maintains records identifying the Council as owner of these securities.

The Council's agent holds securities collateralizing repurchase agreements. The securities are not in the Council's name.

Equity securities are held in book entry form by a financial institution's trust department in the Council's name.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 2001 and June 30, 2000 was as follows:

2001 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	\$18,448,690	\$12,368,487	(\$6,080,203)

2001 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$18,448,690	\$15,607,956	\$2,840,734

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
Continued**

3. BUDGETARY ACTIVITY (Continued)

2000 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	\$20,374,778	\$11,271,389	(\$9,103,389)

2000 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$20,374,778	\$11,836,454	\$8,538,324

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 4.2% for fiscal 2001 and 5.5% for fiscal 2000, 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, 2001 and June 30, 2000 was \$31,502 and \$27,010, respectively.

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.

After the allocation for basic benefits, the remainder of the employer's 14 % contribution is allocated to providing health care benefits. For fiscal year 2001 , employer contributions to fund health care benefits were 9.80% of covered payroll, an increase of 1.3% over the prior fiscal year. 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 2001 and 2000 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, 2001 and June 30, 2000 equaled \$22,839 and \$17,196, respectively.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
Continued**

6. RISK MANAGEMENT

Commercial Insurance

The Council obtained commercial insurance for the following risks:

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

Insurance Purchasing Pool

The Council is a claims-servicing pool comprised of fourteen member school districts. Rates are set by the Council through an annual calculation process based upon actuarially determined rates for each school district. Monthly contributions from member school districts are placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. The actual individual account balance of each member school district is determined on an annual basis. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The Council also purchases stop loss coverage for claims in excess of a set amount both for individual claims (\$165,000) and in the aggregate (\$10,245,175).

The Council covers the following risks:

- Health insurance;
- Dental;
- Vision; and
- Prescription drug coverage.

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

	2001	2000
Cash and investments	\$4,114,000	\$7,216,000
Actuarial liabilities	\$3,020,000	\$2,500,000

The trend data above is useful in assessing the adequacy of rates the Council charges member school districts. An increasing liability indicates current rates may not be sufficient to cover liabilities member school districts have incurred.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
Continued**

7. CASH POSITION OF MEMBER SCHOOL DISTRICTS

At June 30, the member school districts of the Council had the following respective cash position including their respective terminal liability:

<u>Member District</u>	<u>2001</u>	<u>2000</u>
Amherst EVSD	\$173,563	\$449,185
Avon Lake CSD	1,009,749	1,474,594
Avon LSD	739,360	720,122
Clearview LSD	(386,740)	(183,586)
Columbia LSD	60,083	286,458
Firelands LSD	37,591	165,030
Keystone LSD	257,288	388,608
Educational Service Center of Lorain County	173,307	177,586
Lorain County Joint Vocational School	368,275	774,895
Midview LSD	248,982	805,826
Oberlin CSD	426,361	682,297
Sheffield-Sheffield Lake LSD	739,912	1,004,948
Vermilion LSD *	92,566	-
Wellington EVSD	<u>174,089</u>	<u>477,623</u>
Consortium Health Insurance Cash Balance at	<u>\$4,114,386</u>	<u>\$7,223,586</u>

Note: The member school district amounts presented above represents each member's terminal liability amounts, increased by premium payments made to the Council and reduced by claims paid as of June 30, exclusive of claims incurred but not reported (IBNR) as of June 30.

* Vermilion LSD joined the Council July 1, 2000.

8. SUBSEQUENT EVENTS

The Council increased the health insurance premiums paid by member school districts starting July 1, 2001 by up to 20% over the previous fiscal. In October of 2001, the Council increased the health insurance premiums paid by the members school districts by an additional 9% due to increased claims activity.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS 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 the Lake Erie Regional Council of Governments, Lorain County, Ohio, (the Council) as of and for the years ended June 30, 2001 and June 30, 2000, and have issued our report thereon dated December 13, 2001. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10847-001.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Council in a separate letter dated December 13, 2001.

Lake Erie Regional Council of Governments
Lorain County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 13, 2001

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

**SCHEDULE OF FINDINGS
June 30, 2001 and June 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2001-10847-001
----------------	----------------

Findings Repaid Under Audit

During the fiscal year 2001, the Treasurer and the Administrator of the Council, Tom Tomlin and James Sheets, respectively, authorized and made duplicate payments for health care claims in the amount of \$380 to Osteomed II. On December 13, 2001, the full amount has been remitted to the Council by Osteomed II.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for monies improperly expended is hereby issued against Osteomed II; Thomas Tomlin, Treasurer; and James Sheets, Administrator, jointly and severally, in the amount noted above and in favor of the Council.

As noted above, all amounts due the Council have been recovered.

We recommend the Council develop and implement procedures for the payment of claims which will enable Council employees to detect errors or irregularities during the performance of their job duties in a timely manner.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 8, 2002**