

**LAKE ERIE REGIONAL COUNCIL
OF GOVERNMENTS**

LORAIN COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lake Erie Regional Council of Governments, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 13, 2013

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

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

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Lorain County, Ohio, (the Council) as of and for the year ended June 30, 2012, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake Erie Regional Council of Governments, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Ohio, as of June 30, 2012, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Erie Regional Council of Governments, Ohio's financial statements as a whole. Management's Discussion and Analysis includes tables of net cash assets and changes in net assets. These tables provide additional information, but are not part of the basic financial statements. However, these tables are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion and Analysis, and we express no opinion or any other assurance on it. The Claims Development Information on page 17 is supplemental information presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurances on it.



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

January 7, 2013

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The discussion and analysis of the Lake Erie Regional Council of Governments (the "Council") financial performance provides an overall review of the Council's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- In total, net assets were \$ 10,882,707 at June 30, 2012.
- Program cash receipts totaled \$ 20,104,098 in 2012 and program cash disbursements were \$ 19,884,569 for fiscal year 2012. The Council also received \$ 135,572 in interest receipts during the year. Total change in cash net assets for fiscal year 2012 was an increase of \$ 355,101.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2012? The Statement of Net Assets – Cash Basis and The Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year receipts and disbursements if the cash is actually received or paid.

These two statements report the Council's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Council as a whole, the cash basis financial position of the Council has improved or diminished.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The Statement of Net Assets – Cash Basis can be found on page 6 of this report and the Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets can be found on page 9 of this report.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The table below provides a summary of the Council's cash net assets at June 30, 2012 and June 30, 2011.

Table 1 - Net Cash Assets

	Business-type Activities	
	2012	2011
Assets		
Cash and investments with fiscal agent	\$ 10,882,707	\$ 10,527,606
Total assets	<u>10,882,707</u>	<u>10,527,606</u>
Net assets		
Unrestricted	10,882,707	10,527,606
Total net assets	<u>\$ 10,882,707</u>	<u>\$ 10,527,606</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Council's net cash assets totaled \$ 10,882,707, an increase of \$ 355,101 from fiscal year 2011.

Table 2 shows the changes in net cash assets from fiscal year 2012 to fiscal year 2011:

Table 2 - Change in Net Assets

	2012	2011	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 19,931,413	\$ 18,669,612	\$ 1,261,801
Life insurance premium deposits	172,685	187,067	(14,382)
Interest	135,572	204,426	(68,854)
Total cash receipts	<u>20,239,670</u>	<u>19,061,105</u>	<u>1,178,565</u>
Cash disbursements			
Salaries	78,564	59,891	18,673
Fringe benefits	209,958	197,356	12,602
Claims	18,133,439	18,000,942	132,497
Insurance premiums	511,917	546,151	(34,234)
Purchased services	928,258	842,832	85,426
Materials and supplies	21,528	5,390	16,138
Capital outlay	905	-	905
Refund of excess reserves	-	100	(100)
Total cash disbursements	<u>19,884,569</u>	<u>19,652,662</u>	<u>231,907</u>
Increase (decrease) in net cash assets	<u>\$ 355,101</u>	<u>\$ (591,557)</u>	<u>\$ 946,658</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Operating cash receipts in 2012 were \$ 1,247,419 higher than in 2011. This increase can be attributed primarily to an approximate seven percent recommended increase in health care premiums.

Operating cash disbursements increased by \$ 231,907. The net increase can be attributed mainly to disbursements for claims and purchased services.

Current Financial Related Activities

The Council promotes cooperative agreements to its members in dealing with problems of mutual concerns. The Council is a jointly governed organization. During 2011 the Council offered a claims servicing health insurance program and a life insurance purchasing pool. The Council is constantly assessing the needs of its members and acting to provide these services cost effectively.

The largest service offered by the Council is the health insurance claims servicing pool, a self-funded, self-administered insurance program. The claims servicing pool was comprised of ten Lorain County school districts, including the Educational Service Center. Health insurance rates are set through an annual calculation process. The members pay a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. The Council receives an actuarial opinion statement annually assessing the claims liability of the claims servicing pool.

The Council's assembly consists of a superintendent and treasurer, or designated representative, from each participating district. The Council is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board.

Contacting the Council's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jill Orseno, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or by calling 440-324-5777.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF NET ASSETS – CASH BASIS
PROPRIETARY FUNDS

JUNE 30, 2012

	<u>Business-type Activities</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 10,882,707</u>
Total assets	<u><u>10,882,707</u></u>
Net assets	
Unrestricted	<u>10,882,707</u>
Total net assets	<u><u>\$ 10,882,707</u></u>

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

		Program Cash Receipts			
	Cash	Charges	Operating	Capital	Net
	Disbursements	for Services	Grants,	Grants and	(Disbursements,
		and Sales	Contributions	Contribution	Receipts and
			and Interest		Changes in
					Net Assets
Business-type activities					
Insurance purchasing pool	\$ 19,701,453	\$ 19,931,413	\$ -	\$ -	\$ 229,960
Other	183,116	172,685	-	-	(10,431)
Total business-type activities	\$ 19,884,569	20,104,098	-	-	219,529
			General receipts		
			Interest		135,572
			Total general receipts		135,572
			Change in net assets		355,101
			Net assets at beginning of year		10,527,606
			Net assets at end of year		\$ 10,882,707

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET ASSETS – CASH BASIS
PROPRIETARY FUNDS

JUNE 30, 2012

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets			
Cash and investments with fiscal agent	<u>\$ 10,882,138</u>	<u>\$ 569</u>	<u>\$ 10,882,707</u>
Total assets	<u>10,882,138</u>	<u>569</u>	<u>10,882,707</u>
Net assets			
Unrestricted	<u>10,882,138</u>	<u>569</u>	<u>10,882,707</u>
Total net assets	<u>\$ 10,882,138</u>	<u>\$ 569</u>	<u>\$ 10,882,707</u>

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN NET CASH ASSETS – CASH BASIS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Insurance Purchasing Pool	Nonmajor Enterprise Funds	Total Enterprise Funds
	<u> </u>	<u> </u>	<u> </u>
Operating cash receipts			
Health benefit premium deposits	\$ 19,931,413	\$ -	\$ 19,931,413
Life insurance premium deposits	-	172,685	172,685
Total operating cash receipts	<u>19,931,413</u>	<u>172,685</u>	<u>20,104,098</u>
Operating cash disbursements			
Salaries	78,564	-	78,564
Fringe benefits	26,842	183,116	209,958
Claims	18,133,439	-	18,133,439
Insurance premiums	511,917	-	511,917
Purchased services	928,258	-	928,258
Materials and supplies	21,528	-	21,528
Capital outlay	905	-	905
Total operating cash disbursements	<u>19,701,453</u>	<u>183,116</u>	<u>19,884,569</u>
Excess of operating cash receipts over (under) operating cash disbursements	<u>229,960</u>	<u>(10,431)</u>	<u>219,529</u>
Non-operating cash receipts / disbursements			
Interest	<u>135,572</u>	<u>-</u>	<u>135,572</u>
Total non-operating cash receipts / disbursements	<u>135,572</u>	<u>-</u>	<u>135,572</u>
Increase (decrease) in net cash assets	365,532	(10,431)	355,101
Net cash assets at beginning of year	<u>10,516,606</u>	<u>11,000</u>	<u>10,527,606</u>
Net cash assets at end of year	<u>\$ 10,882,138</u>	<u>\$ 569</u>	<u>\$ 10,882,707</u>

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 DESCRIPTION OF THE ENTITY

Lake Erie Regional Council of Governments (the "Council") , Lorain County, Ohio is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council promotes cooperative agreements to its members in dealing with problems of mutual concerns. The Council currently offers a life insurance purchasing pool and a claims servicing health insurance program. The Council is constantly assessing needs of its members and acting to provide these services cost effectively. Services provided by the cooperative are approved by the Council's Board of Directors.

The Council is a jointly governed organization. As of June 30, 2012, there were ten members of the Council. The Council's Board of Directors is the legislative decision making body of the Council and is comprised of the superintendent or designated representative from each participating district, and the fiscal agent.

One of the largest responsibilities of the Council is to offer an insurance purchasing pool to its members as defined by Governmental Accounting Standards Board Statement No. 10. The health insurance claims servicing pool is comprised of ten Lorain County school districts, including the Educational Service Center. The pool was formed to carry out a cooperative program for the provision and administration of health care benefits. Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. The pool premiums are billed to each participating school district based on actuarially determined rates. Claims are paid for all participants regardless of claims flow or individual account balance. The Council receives an actuarial opinion statement annually assessing the claims liability of the insurance purchasing pool.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, and accrued expenses and liabilities) are not recorded in these financial statements.

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 enterprise funds to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. As of June 30, 2012, 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 were limited to certificates of deposit, STAROhio, the State Treasurer’s Investment Pool, repurchase agreements, treasury notes, commercial paper, and federal agencies. These investments are valued at fair value.

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3: CASH AND INVESTMENTS WITH FISCAL AGENT

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

Deposits. At fiscal year end, the carrying amount of the Council's deposits was \$ 2,766,587 including \$ 1,400,000 in certificates in deposits, and the bank balance was \$ 3,109,647. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2012, \$ 1,587,301 of the Council's bank balance was covered by Federal Depository Insurance and \$ 1,522,346 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Council's name.

Custodial credit risk is the risk that, in the event of bank failure, the Council's deposits may not be returned. The Council's policy is to place deposits with major local banks approved by the Council's Board. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at the Federal Reserve bank in the name of the Council.

Investments. As of June 30, 2012, 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, 2012, fair market value of investments was \$ 8,116,120. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

Interest Rate Risk. As a means of limiting its exposure to fair market value losses arising from rising interest rates and according to state law, the Council's investment policy limits investment portfolio maturities to five years or less. The Council's investment portfolio is structured so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk. The credit risk of the Council's investments is identified in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Council has no investment policy that would further limit its investment choices.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 CASH AND INVESTMENTS WITH FISCAL AGENT (continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Council's name. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk. The Council places no limit on the amount that may be invested to any one issuer. The Council's investments in U.S. Agency notes represents 94.6 percent of the Council's total investments. Investments at June 30, 2012 were as follows:

	Fair Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 438,845	AAAm	\$ 438,845	\$ -	\$ -
U.S. Agencies	7,677,275	AAA	1,257,891	1,624,317	4,795,067
Total	<u>\$ 8,116,120</u>		<u>\$ 1,696,736</u>	<u>\$ 1,624,317</u>	<u>\$ 4,795,067</u>

NOTE 4 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2012 is as follows, which includes encumbrances of \$ 427,762:

	2012 Budgeted vs. Actual		
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 22,079,670</u>	<u>\$ 20,239,670</u>	<u>\$ (1,840,000)</u>
Expenditures	<u>\$ 22,152,331</u>	<u>\$ 20,312,331</u>	<u>\$ 1,840,000</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 RELATED PARTY TRANSACTIONS

In consideration for its services, the Educational Service Center of Lorain County, as fiscal agent, receives a fee from the Council in such an amount as approved by the Council's Board of Directors. During the fiscal year ended June 30, 2012 the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Health Insurance	\$ 60,583
Life Insurance	3,329
Administration	9,671
Total	\$ 73,583

NOTE 6 RISK MANAGEMENT

A. INSURANCE PURCHASING POOL

The Council's health insurance program became fully pooled as of July 1, 2007. The actuary established initial reserve balance for the fully pooled plan. The Districts were billed if their June 30, 2007 balance was below the actuarially established reserve or had money refunded to them if their June 30, 2007 cash balance was above the reserve level. Separate district balances are no longer kept and all IBNR claims belong to the pool and not the individual districts.

Effective January 1, 2006, the Council contracted with Medical Mutual of Ohio as a third-party administrator to process and pay health benefit claims for in-hospital services, outpatient services, and physician charges. Dental and vision claims are processed and paid by Council employees. The Council also contracts with Caremark for prescription drug services. Caremark bills the Council weekly for prescriptions by member district. The health insurance claims servicing pool is comprised of ten Lorain County school districts, including the Educational Service Center. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. During fiscal year 2012, the Council purchased specific stop-loss coverage of \$ 250,000 per individual and a maximum aggregate stop-loss coverage liability of 130 percent of claims. The fiscal agent treasurer makes monthly payments to the third party administrator for stop-loss premiums and administrative charges as per the agreement. Stop-loss premiums and administrative costs are contracted annually and may vary from month to month based on the number of enrollees in the plan and the number of single and family plans.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2012:

	2012	2011
Cash and Investments	\$ 10,882,138	\$ 10,516,606
Actuarial Liabilities	\$ 2,909,000	\$ 3,229,000

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 RISK MANAGEMENT (continued)

B. COMMERCIAL INSURANCE

The Council obtained commercial insurance for the following risks:

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

Claims have not exceeded coverage in any of the past three years. There has not been significant reduction in coverage from the prior year.

NOTE 7 SEGMENT INFORMATION

The Council maintains separate enterprise fund accounts for the various cooperative programs offered. Separate account information for these programs for the year ended June 30, 2012 is as follows:

	<u>Insurance Purchasing Pool</u>	<u>Life Insurance</u>	<u>Total Enterprise Funds</u>
Net cash assets, June 30, 2011	\$ 10,516,606	\$ 11,000	\$ 10,527,606
Operating receipts	19,931,413	172,685	20,104,098
Operating disbursements	<u>19,701,453</u>	<u>183,116</u>	<u>19,884,569</u>
Operating receipts over (under) operating disbursements	<u>229,960</u>	<u>(10,431)</u>	<u>219,529</u>
Non-operating: Receipts	<u>135,572</u>	<u>-</u>	<u>135,572</u>
Increase (decrease) in net cash assets	<u>365,532</u>	<u>(10,431)</u>	<u>355,101</u>
Net cash assets, June 30, 2012	<u>\$ 10,882,138</u>	<u>\$ 569</u>	<u>\$ 10,882,707</u>

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>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008</u>
1. Premium and investment income	\$ 20,066,985	\$ 18,874,038	\$ 15,832,015	\$ 18,455,721	\$ 16,372,026
2. Unallocated cash disbursements	1,568,014	1,468,825	1,623,364	2,586,818	5,917,070
3. Claims disbursements	18,133,439	18,000,942	15,582,649	14,154,079	13,865,125
4. Claims paid, cumulative as of:					
End of policy year	N/Av	N/Av	N/Av	N/Av	N/Av
One year later		N/Av	N/Av	N/Av	N/Av
Two years later			N/Av	N/Av	N/Av
Three years later				N/Av	N/Av
Four years later					N/Av

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.

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

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the Lake Erie Regional Council of Governments, Ohio's financial statements and have issued our report thereon dated January 7, 2013. We noted that Lake Erie Regional Council of Governments, Ohio, uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lake Erie Regional Council of Governments, Ohio is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lake Erie Regional Council of Governments, Ohio's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Erie Regional Council of Governments, Ohio's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Lake Erie Regional Council of Governments, Ohio, in a separate letter dated January 7, 2013.

This report is intended solely for the information and use of management, members of the Board, and others within the entity. We intend it for no one other than these specified parties.



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

January 7, 2013

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

Lake Erie Regional Council of Governments had no audit findings or management letter recommendations for the year ended June 30, 2011.



Dave Yost • Auditor of State

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 26, 2013