

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2013**

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, 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, 2012 through June 30, 2013. 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

December 4, 2013

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**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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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

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, as of and for the year ended June 30, 2013, 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 activities, each major fund, and the aggregate remaining fund information of the Lake Erie Regional Council of Governments, Ohio, as of June 30, 2013, 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

Supplemental and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lake Erie Regional Council of Governments, Ohio's basic financial statements.

Management's Discussion and Analysis includes tables of net cash position, changes in net position, and business-type activities. These tables provide additional analysis and are not a required part of the basic financial statements.

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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. We also applied certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are 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 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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* 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

October 24, 2013

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. 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 2013 are as follows:

- In total, net position was \$ 10,896,624 at June 30, 2013.
- Program cash receipts totaled \$ 20,299,622 in 2013 and program cash disbursements were \$ 20,376,582 for fiscal year 2013. The Council also received \$ 90,877 in interest receipts during the year. Total change in cash net position for fiscal year 2013 was an increase of \$ 13,917.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2013? The Statement of Net Position – Cash Basis and The Statement of Cash Receipts, Cash Disbursements, and Changes in Net Position – Cash Basis answers 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 cash position 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) and deferred inflows/outflows 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 Position – Cash Basis can be found on page 7 of this report and the Statement of Receipts, Disbursements, and Changes in Fund Net Position - Cash Basis can be found on page 10 of this report.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The table below provides a summary of the Council's cash net position at June 30, 2013 and June 30, 2012.

Table 1 - Net Cash Position

	Business-type Activities	
	2013	2012
Assets		
Cash and investments with fiscal agent	\$ 10,896,624	\$ 10,882,707
Total assets	<u>10,896,624</u>	<u>10,882,707</u>
Net position		
Unrestricted	10,896,624	10,882,707
Total net position	<u>\$ 10,896,624</u>	<u>\$ 10,882,707</u>

Net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Council's net position totaled \$ 10,896,624, an increase of \$ 13,917 from fiscal year 2012.

Table 2 shows the changes in net position from fiscal year 2013 to fiscal year 2012:

Table 2 - Change in Net Position

	2013	2012	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 20,299,622	\$ 19,931,413	\$ 368,209
Life insurance premium deposits	-	172,685	(172,685)
Interest	90,877	135,572	(44,695)
Total cash receipts	<u>20,390,499</u>	<u>20,239,670</u>	<u>150,829</u>
Cash disbursements			
Salaries	74,957	78,564	(3,607)
Fringe benefits	18,098	209,958	(191,860)
Claims	18,771,598	18,133,439	638,159
Insurance premiums	532,138	511,917	20,221
Purchased services	944,207	928,258	15,949
Materials and supplies	35,584	21,528	14,056
Capital outlay	-	905	(905)
Total cash disbursements	<u>20,376,582</u>	<u>19,884,569</u>	<u>492,013</u>
Increase in net cash position	<u>\$ 13,917</u>	<u>\$ 355,101</u>	<u>\$ (341,184)</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating cash receipts in 2013 were \$ 195,524 higher than in 2012.

Operating cash disbursements increased by \$ 492,013. The net increase can be attributed mainly to an increase of \$ 638,159 in disbursements for claims, which was offset with a decrease of \$ 191,860 in disbursements for fringe benefits.

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 2013 the Council offered a claims servicing health insurance program and a life insurance purchasing pool. Effective July 1, 2012 the Council disbanded the life insurance consortium. 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 POSITION – CASH BASIS
PROPRIETARY FUNDS

JUNE 30, 2013

	<u>Business-type Activities</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 10,896,624</u>
Total assets	<u><u>10,896,624</u></u>
Net position	
Unrestricted	<u>10,896,624</u>
Total net position	<u><u>\$ 10,896,624</u></u>

See notes to financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

		Program Cash Receipts			
Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contribution	Net (Disbursements, Receipts and Changes in Net Position)	
Business-type activities					
Insurance purchasing pool	\$ 20,376,582	\$ 20,299,622	\$ -	\$ -	\$ (76,960)
Total business-type activities	\$ 20,376,582	20,299,622	-	-	(76,960)
			General receipts		
			Interest	90,877	
			Total general receipts	90,877	
			Change in net position	13,917	
			Net position at beginning of year	10,882,707	
			Net position at end of year	\$ 10,896,624	

See notes to financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET POSITION – CASH BASIS
PROPRIETARY FUNDS

JUNE 30, 2013

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets			
Cash and investments with fiscal agent	\$ 10,896,055	\$ 569	\$ 10,896,624
Total assets	<u>10,896,055</u>	<u>569</u>	<u>10,896,624</u>
Net position			
Unrestricted	10,896,055	569	10,896,624
Total net position	<u>\$ 10,896,055</u>	<u>\$ 569</u>	<u>\$ 10,896,624</u>

See notes to financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION –
CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Insurance Purchasing Pool</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Operating cash receipts			
Health benefit premium deposits	<u>\$ 20,299,622</u>	<u>\$ -</u>	<u>\$ 20,299,622</u>
Total operating cash receipts	<u>20,299,622</u>	<u>-</u>	<u>20,299,622</u>
Operating cash disbursements			
Salaries	74,957	-	74,957
Fringe benefits	18,098	-	18,098
Claims	18,771,598	-	18,771,598
Insurance premiums	532,138	-	532,138
Purchased services	944,207	-	944,207
Materials and supplies	<u>35,584</u>	<u>-</u>	<u>35,584</u>
Total operating cash disbursements	<u>20,376,582</u>	<u>-</u>	<u>20,376,582</u>
Excess of operating cash receipts over (under) operating cash disbursements	<u>(76,960)</u>	<u>-</u>	<u>(76,960)</u>
Non-operating cash receipts / disbursements			
Interest	<u>90,877</u>	<u>-</u>	<u>90,877</u>
Total non-operating cash receipts / disbursements	<u>90,877</u>	<u>-</u>	<u>90,877</u>
Increase in net cash position	13,917	-	13,917
Net cash position at beginning of year	<u>10,882,138</u>	<u>569</u>	<u>10,882,707</u>
Net cash position at end of year	<u>\$ 10,896,055</u>	<u>\$ 569</u>	<u>\$ 10,896,624</u>

See notes to financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013, the Council offered a claims servicing health insurance program. Effective, July 1, 2012 the life insurance consortium was disbanded. 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, 2013, 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, accrued expenses and liabilities) and deferred inflows/outflows 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, 2013

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, 2013, 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 4.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No.57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the Council. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Council.

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Council. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Council.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Council. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Council.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Council. The implementation of GASB Statement No. 63 did not have an effect on the financial statements of the Council.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the Council. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Council.

GASB Statement Number 65, "Items Previously Reported as Assets and Liabilities". This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the Council. The implementation of GASB Statement No. 65 did not have an effect on the financial statements 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, 2013

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 \$ 3,148,275 including \$ 1,696,000 in certificates in deposits, and the bank balance was \$ 3,341,387. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2013, \$ 1,993,124 of the Council's bank balance was covered by Federal Depository Insurance and \$ 1,348,263 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, 2013, 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, 2013, fair market value of investments was \$ 7,748,349. 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, 2013

NOTE 4 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 96.9 percent of the Council's total investments. Investments at June 30, 2013 were as follows:

	Fair Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 239,049	AAAm	\$ 239,049	\$ -	\$ -
U.S. Agencies	7,509,300	AAA	730,139	269,937	6,509,224
Total	<u>\$ 7,748,349</u>		<u>\$ 969,188</u>	<u>\$ 269,937</u>	<u>\$ 6,509,224</u>

NOTE 5 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2013 is as follows, which includes current encumbrances of \$ 433,554:

2013 Budgeted vs. Actual			
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 20,662,363</u>	<u>\$ 20,390,499</u>	<u>\$ (271,864)</u>
Expenditures	<u>\$ 21,005,261</u>	<u>\$ 20,810,136</u>	<u>\$ 195,125</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013, the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Health Insurance	\$ 59,672
Administration	9,025
Total	\$ 68,697

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. 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 2013, the Council purchased specific stop-loss coverage of \$ 250,000 per individual. The fiscal agent treasurer makes monthly payments to the third party administrator 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.

During the fiscal year ended June 30, 2013 the Council discontinued the aggregate stop-loss coverage.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2013:

	2013	2012
Cash and Investments	\$ 10,896,055	\$ 10,882,138
Actuarial Liabilities	\$ 2,863,000	\$ 2,909,000

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 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, 2013 is as follows:

	<u>Insurance Purchasing Pool</u>	<u>Life Insurance</u>	<u>Total Enterprise Funds</u>
Net cash position, June 30, 2012	\$ 10,882,138	\$ 569	\$ 10,882,707
Operating receipts	20,299,622	-	20,299,622
Operating disbursements	<u>20,376,582</u>	<u>-</u>	<u>20,376,582</u>
Operating receipts over (under) operating disbursements	<u>(76,960)</u>	<u>-</u>	<u>(76,960)</u>
Non-operating: Receipts	<u>90,877</u>	<u>-</u>	<u>90,877</u>
Increase (decrease) in net cash position	<u>13,917</u>	<u>-</u>	<u>13,917</u>
Net cash position, June 30, 2013	<u>\$ 10,896,055</u>	<u>\$ 569</u>	<u>\$ 10,896,624</u>

NOTE 9 SUBSEQUENT EVENTS

Management has evaluated subsequent 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>6/30/2013</u>	<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	\$ 20,390,499	\$ 20,066,985	\$ 18,874,038	\$ 15,832,015	\$ 18,455,721	\$ 16,372,026
2. Unallocated cash disbursements	1,604,984	1,568,014	1,468,825	1,623,364	2,586,818	5,917,070
3. Claims disbursements	18,771,598	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	N/Av
One year later		N/Av	N/Av	N/Av	N/Av	N/Av
Two years later			N/Av	N/Av	N/Av	N/Av
Three years later				N/Av	N/Av	N/Av
Four years later					N/Av	N/Av
Five 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.

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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

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 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, 2013, 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 October 24, 2013, 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

This 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

October 24, 2013

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013**

The prior audit report, as of June 30, 2012, 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 17, 2013**