

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2017**

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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activity of the Lake Erie Regional Council of Governments, Ohio, as of June 30, 2017, 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

Ohio Administrative Code 117-2-03(B) requires the Council to prepare its annual financial report in accordance with Accounting Principles Generally Accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the accounting basis applied to these statements, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, 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 5, 2017

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017. 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 2017 are as follows:

- In total, net position was \$ 15,351,526 at June 30, 2017.
- Program cash receipts totaled \$ 26,166,295 in 2017 and program cash disbursements were \$ 23,957,124 for fiscal year 2017. The Council also received \$ 125,682 in interest receipts during the year. Total change in cash net position for fiscal year 2017 was an increase of \$ 2,334,853.

Using this Annual Financial Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Council's cash basis of accounting. The report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Council as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions on the cash basis of accounting.

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

Reporting the Board as a Whole

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year receipts and disbursements if the cash is actually received or paid.

These two statements report the Council's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Council as a whole, the financial position of the Council has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Reporting the Council's Fund Financial Statements

Fund Financial Statements

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

The Council as a Whole

The table below provides a summary of the Council's cash net position at June 30, 2017 and June 30, 2016.

Table 1 - Net Cash Position

	2017	2016
Assets		
Cash and investments with fiscal agent	\$ 15,351,526	\$ 13,016,673
Total assets	<u>15,351,526</u>	<u>13,016,673</u>
Net position		
Unrestricted	15,351,526	13,016,673
Total net position	<u>\$ 15,351,526</u>	<u>\$ 13,016,673</u>

Net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Council's net position totaled \$ 15,351,526, an increase of \$ 2,334,853 from fiscal year 2016.

Table 2 shows the changes in net position from fiscal year 2016 to fiscal year 2017:

Table 2 - Change in Net Position

	2017	2016	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 26,166,295	\$ 27,872,370	(1,706,075)
Interest	125,682	82,189	43,493
Total cash receipts	<u>26,291,977</u>	<u>27,954,559</u>	<u>(1,662,582)</u>
Cash disbursements			
Salaries	28,507	27,256	1,251
Fringe benefits	4,815	4,772	43
Claims	21,464,157	22,501,965	(1,037,808)
Insurance premiums	1,075,098	919,836	155,262
Purchased services	1,362,157	1,400,552	(38,395)
Materials and supplies	22,390	27,966	(5,576)
Total cash disbursements	<u>23,957,124</u>	<u>24,882,347</u>	<u>(925,223)</u>
Increase (decrease) in net cash position	<u>\$ 2,334,853</u>	<u>\$ 3,072,212</u>	<u>\$ (737,359)</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating cash receipts in 2017 were \$ 1,706,075 lower than in 2016 due to a one month holiday premium.

Operating cash disbursements decreased by \$ 925,223. The net decrease can be attributed mainly to a decrease of \$ 1,037,808 for claims, which can vary from year to year.

Current Financial Related Activities

The Council promotes cooperative agreements to its members in dealing with problems of mutual concerns. The Council is a jointly governed organization. During 2017 the Council offered a claims servicing health insurance program. The Council is constantly assessing the needs of its members and acting to provide these services cost effectively.

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

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

Contacting the Council's Financial Management

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

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LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF NET POSITION – CASH BASIS
PROPRIETARY FUND

JUNE 30, 2017

	<u>Business-type Activities</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 15,351,526</u>
Total assets	<u><u>15,351,526</u></u>
Net position	
Unrestricted	<u>15,351,526</u>
Total net position	<u><u>\$ 15,351,526</u></u>

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF ACTIVITIES – CASH BASIS
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Cash Disbursements</u>	<u>Program Cash Receipts Charges for Services and Sales</u>	<u>Net (Disbursements) Receipts and Changes in Net Position</u>
Business-type activities			
Insurance purchasing pool	\$ 23,957,124	26,166,295	2,209,171
Total business-type activities	<u>\$ 23,957,124</u>	<u>\$ 26,166,295</u>	<u>2,209,171</u>
General receipts			
Interest			125,682
Total general receipts			<u>125,682</u>
Change in net position			2,334,853
Net position at beginning of year			13,016,673
Net position at end of year			<u>\$ 15,351,526</u>

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF FUND NET POSITION – CASH BASIS
PROPRIETARY FUND

JUNE 30, 2017

	<u>Insurance Purchasing Pool</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 15,351,526</u>
Total assets	<u><u>15,351,526</u></u>
Net position	
Unrestricted	<u>15,351,526</u>
Total net position	<u><u>\$ 15,351,526</u></u>

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION –
CASH BASIS - PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Purchasing Pool
Operating cash receipts	
Health benefit premium deposits	\$ 26,166,295
Total operating cash receipts	26,166,295
Operating cash disbursements	
Salaries	28,507
Fringe benefits	4,815
Claims	21,464,157
Insurance premiums	1,075,098
Purchased services	1,362,157
Materials and supplies	22,390
Total operating cash disbursements	23,957,124
Excess of operating receipts over operating cash disbursements	2,209,171
Non-operating cash receipts	
Interest	125,682
Total non-operating cash receipts	125,682
Increase in net cash position	2,334,853
Net cash position at beginning of year	13,016,673
Net cash position at end of year	\$ 15,351,526

See accompanying notes to the basic financial statements.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017, the Council offered a claims servicing health insurance program. The Council is constantly assessing needs of its members and acting to provide these services cost effectively. Services provided by the cooperative are approved by the Council's Board of Directors.

The Council is a jointly governed organization. As of June 30, 2017, there were eleven members of the Council. The Council's Board of Directors is the legislative decision making body of the Council and is comprised of the superintendent or designated representative from each participating district, and the fiscal agent.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

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

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

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING

The Council maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of the government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. As of June 30, 2017, the Council’s major enterprise fund was as follows:

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

C. BUDGETARY PROCESS

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

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

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

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

D. CASH AND INVESTMENTS WITH FISCAL AGENT

The Educational Service Center of Lorain County (the “Service Center”) serves as the fiscal agent for the Council. The Service Center maintains the Council’s financial activity on the Service Center’s books under a specific fund designed for Council activity. The Treasurer of the Service Center, acting as custodian of Council funds, invests monies on behalf of the Council. Investments maintained by the Service Center as fiscal agent are limited to certificates of deposit, STAROhio (the State Treasurer’s Investment Pool), treasury notes, commercial paper, and federal agencies. These investments are valued at fair value.

STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The Council measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CASH AND INVESTMENTS WITH FISCAL AGENT (continued)

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

An analysis of the Council's cash and investments with its fiscal agent at fiscal year-end is provided in Note 4.

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the Council implemented Governmental Accounting Standards Board (GASB) Statement No. 77, "Tax Abatement Disclosures," GASB Statement No. 78, "Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plan," GASB Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14," and GASB Statement No. 82, "Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No. 73.

GASB Statement No. 77, "Tax Abatement Disclosures." The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Council incorporated the corresponding GASB Statement No 77 guidance into their fiscal year 2017 financial statements; however, there is no effect on the beginning net position.

GASB Statement No 78, "Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plan." The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Council.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants" establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The Council participates in STAR Ohio which implemented GASB Statement No. 79 for the fiscal year 2017. The Council incorporated the corresponding GASB 79 guidance into their fiscal year 2017 financial statements; however, there is no effect on beginning net position/fund balance.

GASB Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14." This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The implementation of GASB No. 80 did not have an effect on the financial statements of the Council.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Council's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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.

A. LEGAL REQUIREMENTS

State statutes classify monies held by the Council into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Council's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Council, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Council's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

B. DEPOSITS

At fiscal year end, the carrying amount of the Council's deposits was \$ 9,084,454 including \$ 6,667,369 in certificates of deposits, and the bank balance was \$ 9,092,127. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2017, \$ 6,928,058 of the Council's bank balance was covered by Federal Depository Insurance and \$ 2,164,069 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.

C. INVESTMENTS

As of June 30, 2017, the Council has a formal investment policy. The Council records all its investments at fair value. At June 30, 2017, fair value of investments was \$ 6,267,072. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

D. 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.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

E. 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.

F. 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. Investments at June 30, 2017 were as follows:

	Fair Value	Percent of Total	Credit Rating	Investment Maturities		
				< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 2,156,763	34.4%	AAAm	\$ 2,156,763	\$ -	\$ -
Commercial Paper	826,240	13.2%	A1	826,240	-	-
Commercial Paper	346,196	5.5%	A1+	346,196	-	-
U.S. Agencies	2,937,873	46.9%	AA+	1,858,604	384,993	694,276
Total	<u>\$ 6,267,072</u>	<u>100.0%</u>		<u>\$ 5,187,803</u>	<u>\$ 384,993</u>	<u>\$ 694,276</u>

The Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices inactive markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Council's recurring fair value measurements as of June 30, 2017. The Council's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2017 is as follows, which includes current encumbrances of \$ 53,234:

2017 Budgeted vs. Actual			
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	\$ 26,291,977	\$ 26,291,977	\$ -
Expenditures	\$ 24,010,358	\$ 24,010,358	\$ -

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, 2017, the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Health Insurance	\$ 71,650
Administration	7,189
Total	\$ 78,839

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 RISK MANAGEMENT

A. INSURANCE PURCHASING POOL

Effective January 1, 2006, the Council contracted with Medical Mutual of Ohio as a third-party administrator to process and pay health benefit claims for in-hospital services, outpatient services, and physician charges. Effective July 1, 2013 dental and vision claims are processed and paid by Medical Mutual of Ohio. However, effective January 1, 2017 Delta Dental took over dental claims. The Council also contracts with Caremark for prescription drug services. All entities invoice the Council weekly for paid claims by member districts. The health insurance servicing pool is comprised of eleven Lorain County Councils, including the Educational Service Center. Payments are made monthly for premiums by the eleven member districts as established and approved by the Board of Directors. During fiscal year 2017, the Council purchased specific stop-loss coverage of \$ 250,000 per individual. The fiscal agent treasurer makes monthly payments to the third party administrators for administrative charges as per their agreements. 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, 2017:

	<u>2017</u>	<u>2016</u>
Cash and Investments	\$ 15,351,526	\$ 13,016,673
Actuarial Liabilities	\$ 3,078,000	\$ 3,177,000

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 COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Council to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Council prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred outflows/inflows of resources, net position and disclosures that, while material, cannot be determined at this time. The Council can be fined and various other administrative remedies may be taken against the Council.

NOTE 9 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>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
1. Premium and investment income	\$ 26,291,977	\$ 27,954,559	\$ 25,573,396	\$ 25,142,074
2. Unallocated cash disbursements	2,492,967	2,380,382	2,419,485	2,072,572
3. Claims disbursements	21,464,157	22,501,965	24,052,850	23,122,726
4. Claims paid, cumulative as of:				
End of policy year	N/Av	N/Av	N/Av	N/Av
One year later		N/Av	N/Av	N/Av
Two years later			N/Av	N/Av
Three years later				N/Av
Four years later				
Five years later				
Six years later				
Seven years later				
Eight years later				
Nine years later				

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

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

The Council reports on the cash basis of accounting. Premium and investment income are recorded when received and unallocated cash disbursements and claim disbursements are recorded when paid by the Council. A claims liability is not recorded under the Council's cash basis of accounting.

<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>
\$ 20,390,499	\$ 20,066,985	\$ 18,874,038	\$ 15,832,015	\$ 18,455,721	\$ 16,372,026
1,604,984	1,568,014	1,468,825	1,623,364	2,586,818	5,917,070
18,771,598	18,133,439	18,000,942	15,582,649	14,154,079	13,865,125
N/Av	N/Av	N/Av	N/Av	N/Av	N/Av
N/Av	N/Av	N/Av	N/Av	N/Av	N/Av
N/Av	N/Av	N/Av	N/Av	N/Av	N/Av
N/Av	N/Av	N/Av	N/Av	N/Av	N/Av
N/Av	N/Av	N/Av	N/Av	N/Av	N/Av
	N/Av	N/Av	N/Av	N/Av	N/Av
		N/Av	N/Av	N/Av	N/Av
			N/Av	N/Av	N/Av
				N/Av	N/Av
					N/Av

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

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

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity of the Lake Erie Regional Council of Governments, Lorain County, Ohio, as of and for the year ended June 30, 2017, 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 5, 2017, 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as **Item 2017-001**.

Lake Erie Regional Council of Governments Response to Finding

The Lake Erie Regional Council of Governments, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Lake Erie Regional Council of Governments, Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



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

October 5, 2017

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

1. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding 2017-001 – Noncompliance Finding – Annual Financial Report

Condition/Criteria

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the Council to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Council prepares its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles.

Effect

The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material cannot be determined at this time. Pursuant to the Ohio Revised Code Section 117.38, the Council may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

Recommendation

We recommend the Council take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

District Response

The Council intends to continue to prepare cash statements in order to save money.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2017**

The prior audit report, as of June 30, 2016, included no management letter recommendations.