

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Lake Erie Regional Council of Governments, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 19, 2007

This Page is Intentionally Left Blank.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Accountant's Report	1-2
Management's Discussion and Analysis	3-5
Statement of Net Assets - Cash Basis	6
Statement of Activities - Cash Basis - Proprietary Funds	7
Statement of Fund Net Assets - Cash Basis - Proprietary Funds	8
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Net Assets - Proprietary Funds	9
Notes to the Financial Statements	10-18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20

This Page is Intentionally Left Blank.

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 ACCOUNTANTS' REPORT

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

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, 2007, 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, Lorain County, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. 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 basis financial position 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 June 30, 2007, and the respective changes in cash basis net assets for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of the Lake Erie Regional Council of Governments, Lorain County, 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 the 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

November 16, 2007

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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, 2007. 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 2007 are as follows:

- In total, net assets were \$14,864,526 at June 30, 2007.
- Operating cash receipts totaled \$23,730,293 in 2007 and cash operating disbursements were \$19,804,382 for fiscal year 2007. The Council also received \$567,446 in interest receipts during the year. Total change in cash net assets for fiscal year 2007 was an increase of \$4,493,357.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2007?". 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)**

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.

The table below provides a summary of the Council's cash net assets at June 30, 2007 and June 30, 2006.

Table 1 - Net Cash Assets

	<u>Business-Type Activities</u>	
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and Investments with Fiscal Agent	\$14,864,526	\$10,371,169
Total Assets	<u>14,864,526</u>	<u>10,371,169</u>
<u>Net Cash Assets</u>		
Unrestricted	<u>14,864,526</u>	<u>10,371,169</u>
Total Net Cash Assets	<u>\$14,864,526</u>	<u>\$10,371,169</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Council's net cash assets totaled \$14,864,526, an increase of \$4,493,357 over fiscal year 2006.

Table 2 shows the changes in net cash assets from fiscal year 2007 to fiscal year 2006:

Table 2 - Change in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Cash Receipts</u>				
Health Benefit Premium Deposits	\$ 19,670,672	\$ 23,438,460	\$(3,767,788)	(16.08)%
Natural Gas Consortium Deposits	3,748,809	5,387,896	(1,639,087)	(30.42)%
Life Insurance Premium Deposits	186,111	229,714	(43,603)	(18.98)%
Media Center Charges for Services	121,687	132,812	(11,125)	(8.38)%
Miscellaneous	3,014	597	2,417	404.86 %
Interest	<u>567,446</u>	<u>271,290</u>	<u>296,156</u>	109.17 %
Total Cash Receipts	<u>24,297,739</u>	<u>29,460,769</u>	<u>(5,163,030)</u>	(17.53)%
<u>Cash Disbursements</u>				
Salaries	124,773	215,005	(90,232)	(41.97)%
Fringe Benefits	64,338	67,959	(3,621)	(5.33)%
Claims	14,540,681	17,373,063	(2,832,382)	(16.30)%
Insurance Premiums	685,752	765,394	(79,642)	(10.41)%
Natural Gas Purchases	3,609,769	5,125,495	(1,515,726)	(29.57)%
Purchased Services	771,925	1,014,549	(242,624)	(23.91)%
Materials and Supplies	5,781	13,857	(8,076)	(58.28)%
Miscellaneous	<u>1,363</u>	<u>208</u>	<u>1,155</u>	555.29 %
Total Cash Disbursements	<u>19,804,382</u>	<u>24,575,530</u>	<u>(4,771,148)</u>	(19.41)%
<i>Increase in Net Cash Assets</i>	<u>\$ 4,493,357</u>	<u>\$ 4,885,239</u>	<u>\$ (391,882)</u>	(8.03)%

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)**

The decrease of \$5,163,030 in operating cash receipts can be attributed mainly to decreased collections from health insurance premiums and decreased natural gas deposits due to decreased natural gas costs.

Operating cash disbursements decreased by \$4,771,148. The decrease can be attributed mainly to decreased natural gas disbursements and decreased claims payments.

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. The Council offers a media service, a natural gas purchasing consortium, a property insurance purchasing pool, and 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 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 eleven Lorain County school districts, including the Educational Service Center. At the end of the fiscal year, the pool was comprised of ten members, due to Amherst School District dropping out. 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. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating member would be liable for all outstanding claims beyond their individual balance. The Council's Board of Directors has the right to return monies to a withdrawn member after all expenses and claims have been paid. 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 or designated representative from each participating district and the fiscal agent. 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 Tom Tomlin, 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
JUNE 30, 2007**

	<u>Business-Type Activities</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Investments with Fiscal Agent	\$ <u>14,864,526</u>
Total Assets	<u>14,864,526</u>
<u>Net Cash Assets</u>	
Unrestricted	<u>14,864,526</u>
Total Net Assets	<u>\$ 14,864,526</u>

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF ACTIVITIES - CASH BASIS - PROPRIETARY FUNDS
JUNE 30, 2007**

		Program Cash Receipts			Net (Disbursements)
	Cash	Charges for Services and Sales	Contributions and Interest	Capital Grants and Contributions	Receipts and Changes in Net Assets Total Business-Type Activities
<u>Business-Type Activities</u>	<u>Disbursements</u>	<u>and Sales</u>	<u>Interest</u>	<u>Contributions</u>	<u>Business-Type Activities</u>
Insurance Purchasing Pool	\$ 15,791,583	\$ 19,670,672	\$ 0	\$ 0	\$ 3,879,089
Natural Gas Consortium	3,637,116	3,748,809	0	0	111,693
Other	375,683	310,812	0	0	(64,871)
Total Business-Type Activities	<u>\$19,804,382</u>	<u>\$23,730,293</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>3,925,911</u>
 <u>General Receipts</u>					
Interest					<u>567,446</u>
Total General Receipts					<u>567,446</u>
Change in Net Assets					4,493,357
Net Assets Beginning of Year					<u>10,371,169</u>
Net Assets End of Year					<u>\$ 14,864,526</u>

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF FUND NET ASSETS - CASH BASIS - PROPRIETARY FUNDS
JUNE 30, 2007**

	Business-Type Activities			
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	Total Enterprise Funds
<u>Assets</u>				
<u>Current Assets</u>				
Cash and Investments	\$14,175,291	\$ 668,992	\$ 20,243	\$14,864,526
Total Assets	14,175,291	668,992	20,243	14,864,526
<u>Net Cash Assets</u>				
Unrestricted	14,175,291	668,992	20,243	14,864,526
Total Net Assets	\$ 14,175,291	\$ 668,992	\$ 20,243	\$14,864,526

See accompanying notes to the basic financial statements.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
CASH NET ASSETS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Business-Type Activities			Total Enterprise Funds
	Insurance Purchasing Pool	Gas Consortium	Nonmajor Enterprise Funds	
Operating Cash Receipts				
Health Benefit Premium Deposits	\$19,670,672	\$ 0	\$ 0	\$19,670,672
Natural Gas Consortium Deposits	0	3,748,809	0	3,748,809
Life Insurance Premiums Deposits	0	0	186,111	186,111
Media Center Charges for Services	0	0	121,687	121,687
Miscellaneous	0	0	3,014	3,014
Total Operating Cash Receipts	<u>19,670,672</u>	<u>3,748,809</u>	<u>310,812</u>	<u>23,730,293</u>
Operating Cash Disbursements				
Salaries	62,304	0	62,469	124,773
Fringe Benefits	40,657	0	23,681	64,338
Claims	14,540,681	0	0	14,540,681
Insurance Premiums	484,415	0	201,337	685,752
Natural Gas Premiums	0	3,609,769	0	3,609,769
Purchased Services	662,993	27,347	81,585	771,925
Materials and Supplies	433	0	5,348	5,781
Miscellaneous	100	0	1,263	1,363
Total Operating Cash Disbursements	<u>15,791,583</u>	<u>3,637,116</u>	<u>375,683</u>	<u>19,804,382</u>
Excess of Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>3,879,089</u>	<u>111,693</u>	<u>(64,871)</u>	<u>3,925,911</u>
Non-Operating Cash Receipts/Disbursements				
Interest	546,673	17,965	2,808	567,446
Advances In	0	0	15,093	15,093
Advances Out	0	(15,093)	0	(15,093)
Total Non-Operating Cash Receipts/Disbursements	<u>546,673</u>	<u>2,872</u>	<u>17,901</u>	<u>567,446</u>
Increase (Decrease) in Net Cash Assets	4,425,762	114,565	(46,970)	4,493,357
Net Cash Assets at Beginning of Year	<u>9,749,529</u>	<u>554,427</u>	<u>67,213</u>	<u>10,371,169</u>
Net Cash Assets at End of Year	<u>\$14,175,291</u>	<u>\$ 668,992</u>	<u>\$ 20,243</u>	<u>\$14,864,526</u>

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, 2007**

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 offers a media service, a natural gas purchasing consortium, 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, 2007, there were seventeen 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 was 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. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating member would be liable for all outstanding claims beyond their individual balance. The Council’s Board of Directors has the right to return monies to a withdrawn member after all expenses and claims have been paid. 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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).

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. The following are the Council’s major enterprise funds:

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.

Gas Consortium – This fund is used to account for revenues collected from participating members to purchase gas in large quantities in order to reduce cost.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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, 2007
(CONTINUED)**

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 \$3,606,982, including \$2,223,468 in certificates in deposits, and the bank balance was \$4,015,951. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2007, \$2,623,468 of the Council's bank balance was covered by Federal Depository Insurance and \$1,392,483 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, 2007, 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, 2007, fair market value of investments was \$11,257,544, which was \$44,190 below net cost. 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, 2007
(CONTINUED)**

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 91.2 percent of the Council's total investments. Investments at June 30, 2007 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities</u>		
			<u>< 1 Year</u>	<u>1-2 Years</u>	<u>3-5 Years</u>
STAROhio	\$ 993,135	AAAm	\$ 993,135	\$ 0	\$ 0
U.S. Agencies	10,264,409	AAA	21,294	5,471,320	4,771,795
Totals	<u>\$ 11,257,544</u>		<u>\$ 1,014,429</u>	<u>\$ 5,471,320</u>	<u>\$ 4,771,795</u>

NOTE 4: BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2007 is as follows, which includes encumbrances of \$702,943:

<u>Enterprise Fund Type</u>	<u>2007 Budgeted vs. Actual Receipts</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Receipts	<u>\$34,113,959</u>	<u>\$ 34,684,001</u>	<u>\$ 570,042</u>
Expenditures	<u>\$20,929,993</u>	<u>\$ 20,522,418</u>	<u>\$ 407,575</u>

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

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, 2007, the following fees were paid to the Educational Service Center by the Council:

<u>Service</u>	<u>Amount</u>
Media Center	\$ 4,300
Health Insurance	48,000
Natural Gas	11,566
Life Insurance	4,198
Floor covering	<u>101</u>
Total	<u>\$ 68,165</u>

NOTE 6: 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. Processing charges are billed monthly and are charged to each district's account based on the number of prescriptions filled during the month. The health insurance claims servicing pool was comprised of eleven Lorain County school districts, including the Educational Service Center. At the end of the fiscal year, the pool was comprised of ten members, due to Amerherst School District dropping out. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. During fiscal year 2007, the Council purchased specific stop-loss coverage of \$165,000 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.

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

NOTE 6: **RISK MANAGEMENT** (Continued)

A. **Insurance Purchasing Pool** (Continued)

Ten of the eleven participating districts in the health plan paid in an amount upon joining the plan to be held on deposit to pay claim “run-out” in the event the member should leave the consortium. The total on deposit is \$1,103,436 as of June 30, 2007. Any money remaining after all outstanding claims are paid is returned to the member one year after leaving the consortium. Any shortfall after all claims are paid is billed to the member district. Vermilion Local Schools joined the consortium on July 1, 2000 and did not pay an initial deposit.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2007:

	2007	2006
Cash and Investments	\$13,911,435	\$ 9,504,384
Actuarial Liabilities	\$ 4,300,000	\$ 4,130,580

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

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

NOTE 7: CASH POSITION OF MEMBER SCHOOL DISTRICTS IN INSURANCE PURCHASING POOL

At June 30, the member school districts of the Council had the following respective cash positions in the insurance purchasing pool including their respective terminal liabilities:

<u>Member District</u>	<u>Cash Position</u>
Amherst	\$ 958,400
Clearview	251,904
Columbia	610,800
Firelands	2,332,339
Keystone	1,544,240
Educational Service Center of Lorain County	387,427
Lorain County JVS	1,191,168
Midview	1,797,711
Sheffield-Sheffield Lake	1,322,745
Vermilion	2,418,783
Wellington	<u>1,095,918</u>
Cash Balance as of June 30, 2007	<u>\$13,911,435</u>

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, 2007 is as follows:

	<u>Media Center</u>	<u>Health Insurance</u>	<u>Gas Consortium</u>	<u>Life Insurance</u>	<u>Co-op Flooring</u>	<u>Total</u>
Net Cash Assets June 30, 2006	\$ 62,971	\$9,749,529	\$ 554,427	\$ 4,242	\$ 0	\$10,371,169
Operating Receipts	121,687	19,670,672	3,748,809	186,111	3,014	23,730,293
Operating Disbursements	171,332	15,791,583	3,637,116	201,337	3,014	19,804,382
Operating Receipts Over (Under)						
Operating Disbursements	(49,645)	3,879,089	111,693	(15,226)	0	3,925,911
Non-Operating Receipts	2,808	546,673	17,965	15,093	0	582,539
Non-Operating Disbursements	0	0	15,093	0	0	15,093
Increase (Decrease) in						
Net Cash Assets	(46,837)	4,425,762	114,565	(133)	0	4,493,357
Net Cash Assets June 30, 2007	16,134	14,175,291	668,992	4,109	0	14,864,526

**LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

NOTE 9: **SUBSEQUENT EVENTS**

The Board of Directors voted and modified the Council's by-laws effective July 1, 2007. The Council's health insurance program will become fully pooled as of this date. The actuary has established initial reserve balances for the fully pooled plan. Districts will be billed if their June 30, 2007 cash balance is below the actuarially established reserve or have money refunded to them if their June 30, 2007 cash balance is above the reserve levels. Separate district balances will no longer be kept effective July 1, 2007. All IBNR claims as of July 1, 2007 will belong to the pool and not the individual districts; therefore, there will be no individual IBNR amounts reported to the various districts.

The carrier for the group life insurance program changed on July 1, 2007 from Educational Employees Life Insurance Trust to Fort Dearborn Life Insurance Company.

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**

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

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, 2007, which collectively comprise the Lake Erie Regional Council of Governments' basic financial statements, and have issued our report thereon dated November 16, 2007. 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

In planning and performing our audit, we considered the Lake Erie Regional Council of Governments, Lorain County, 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, Lorain County, 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, Lorain County, Ohio's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lake Erie Regional Council of Governments, Lorain County, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lake Erie Regional Council, Ohio's financial statements that is more than inconsequential will be prevented or detected by the Lake Erie Regional Council of Governments, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lake Erie Regional Council of Governments, Lorain County, Ohio's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, Lorain County, 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*.

However, we noted certain matters that we reported to the management of the Lake Erie Regional Council of Governments, Lorain County, Ohio, in a separate letter dated November 16, 2007.

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

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

November 16, 2007



Mary Taylor, CPA
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 31, 2007**