

Lake Erie Regional Council of Governments

Lorain County, Ohio

Regular Audit

July 1, 2007 through June 30, 2008



Balestra, Harr & Scherer, CPAs, Inc.

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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 Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 22, 2009

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Lake Erie Regional Council of Governments

Table of Contents

For the Fiscal Year Ended June 30, 2008

<u>Title</u>	<u>Page</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	2
Basic Financial Statements:	
Statement of Net Assets – Cash Basis	6
Statement of Activities – Cash Basis.....	7
Statement of Fund Net Assets – Cash Basis	8
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Cash Basis.....	9
Notes to the Basic Financial Statements.....	10
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17

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Ohio Society of Certified Public

Independent Accountants' Report

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

We have audited the accompanying financial statements of the business-type activities of the Lake Erie Regional Council of Governments, (the Council), as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 opinion.

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

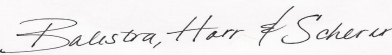
The Council has not considered the need to provide, nor do the financial statements include the "Required Supplementary Information" per GASB 10, paragraph, 50.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business-type activities of the Council, as of June 30, 2008, and the changes in cash basis financial position thereof in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The "Required Supplemental Information" required by GASB 10, paragraph, 50 is not a required part of the basic financial statement. The Council's lack of presenting the "Required Supplemental Information" did not allow us to apply the limited procedures normally required in connection with the "Required Supplementary Information."


Balestra, Harr & Scherer, CPAs, Inc.
February 27, 2009

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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, 2008. 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 2008 are as follows:

- In total, net assets were \$ 11,504,277 at June 30, 2008.
- Operating cash receipts totaled \$ 18,338,439 in 2008 and cash operating disbursements were \$ 22,332,497 for fiscal year 2008. The Council also received \$ 632,381 in interest receipts during the year. Total change in cash net assets for fiscal year 2008 was a decrease of \$ 3,360,249.

Reporting the Council's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2008? The Statement of Net Assets – Cash Basis and The Statement of Cash Receipts, Cash Disbursements, and Changes in Net Assets – Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year receipts and disbursements if the cash is actually received or paid.

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

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

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

The table below provides a summary of the Council's cash net assets at June 30, 2008 and June 30, 2007.

Table 1 - Net Cash Assets

	Business-type Activities	
	2008	2007
Assets		
Cash and investments with fiscal agent	\$ 11,504,277	\$ 14,864,526
Total assets	<u>11,504,277</u>	<u>14,864,526</u>
Net assets		
Unrestricted	11,504,277	14,864,526
Total net assets	<u>\$ 11,504,277</u>	<u>\$ 14,864,526</u>

Net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Council's net cash assets totaled \$ 11,504,277, a decrease of \$ 3,360,249 from fiscal year 2007.

Table 2 shows the changes in net cash assets from fiscal year 2008 to fiscal year 2007:

Table 2 - Change in Net Assets

	2008	2007	Increase (Decrease)
Cash receipts			
Health benefit premium deposits	\$ 15,748,617	\$ 19,670,672	\$ (3,922,055)
Natural gas consortium deposits	2,266,350	3,748,809	(1,482,459)
Life insurance premium deposits	190,232	186,111	4,121
Media Center charges for services	133,240	121,687	11,553
Miscellaneous	1,428	3,014	(1,586)
Interest	632,381	567,446	64,935
Total cash receipts	<u>18,972,248</u>	<u>24,297,739</u>	<u>(5,325,491)</u>
Cash disbursements			
Salaries	128,429	124,773	3,656
Fringe benefits	213,676	64,338	149,338
Claims	13,865,125	14,540,681	(675,556)
Insurance premiums	569,418	685,752	(116,334)
Natural gas premiums	2,184,344	3,609,769	(1,425,425)
Purchased services	1,266,269	771,925	494,344
Materials and supplies	5,814	5,781	33
Capital outlay	568	-	568
Refund of excess reserves	4,098,854	-	4,098,854
Miscellaneous	-	1,363	(1,363)
Total cash disbursements	<u>22,332,497</u>	<u>19,804,382</u>	<u>2,528,115</u>
Increase (decrease) in net cash assets	<u>\$ (3,360,249)</u>	<u>\$ 4,493,357</u>	<u>\$ (7,853,606)</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

The decrease of \$ 5,391,854 in operating cash receipts can be attributed primarily to decreased collections from health insurance premiums and decreased natural gas deposits due to decreased natural gas costs.

Operating cash disbursements increased by \$ 2,528,115. The increase can be attributed mainly to refunds of excess reserves, which increase was offset by 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. During 2008 the Council offered a media service, a natural gas purchasing consortium, and a claims servicing health insurance program. As of July 1, 2008 the media service and natural gas purchasing consortium were discontinued. 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. 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 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, 2008

	<u>Business-type Activities</u>
Assets	
Cash and investments with fiscal agent	<u>\$ 11,504,277</u>
Total assets	<u><u>11,504,277</u></u>
Net assets	
Unrestricted	<u>11,504,277</u>
Total net assets	<u><u>\$ 11,504,277</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 FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Program Cash Receipts			Net
Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contribution	(Disbursements Receipts and Changes in Net Assets)
Business-type activities				
Insurance purchasing pool	\$ 19,782,763	\$ 15,748,617	\$ -	\$ -
Natural gas consortium	2,204,471	2,266,350	-	-
Other	345,263	323,472	-	-
Total business-type activities	\$ 22,332,497	18,338,439	-	-
		General receipts		
		Interest		632,381
		Miscellaneous		1,428
		Total general receipts		633,809
		Change in net assets		(3,360,249)
		Net assets at beginning of year		14,864,526
		Net assets at end of year		\$ 11,504,277

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, 2008

	<u>Insurance Purchasing Pool</u>	<u>Natural Gas Consortium</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets				
Cash and investments with fiscal agent	\$ 10,764,553	\$ 706,222	\$ 33,502	\$ 11,504,277
Total assets	<u>10,764,553</u>	<u>706,222</u>	<u>33,502</u>	<u>11,504,277</u>
Net assets				
Unrestricted	10,764,553	706,222	33,502	11,504,277
Total net assets	<u>\$ 10,764,553</u>	<u>\$ 706,222</u>	<u>\$ 33,502</u>	<u>\$ 11,504,277</u>

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 YEAR ENDED JUNE 30, 2008

	Insurance Purchasing Pool	Natural Gas Consortium	Nonmajor Enterprise Funds	Total Enterprise Funds
Operating cash receipts				
Health benefit premium deposits	\$ 15,748,617	\$ -	\$ -	\$ 15,748,617
Natural gas consortium deposits	-	2,266,350	-	2,266,350
Life insurance premium deposits	-	-	190,232	190,232
Media Center charges for services	-	-	133,240	133,240
Total operating cash receipts	<u>15,748,617</u>	<u>2,266,350</u>	<u>323,472</u>	<u>18,338,439</u>
Operating cash disbursements				
Salaries	57,709	-	70,720	128,429
Fringe benefits	21,480	-	192,196	213,676
Claims	13,865,125	-	-	13,865,125
Insurance premiums	569,418	-	-	569,418
Natural gas premiums	-	2,184,344	-	2,184,344
Purchased services	1,168,794	20,127	77,348	1,266,269
Materials and supplies	815	-	4,999	5,814
Capital outlay	568	-	-	568
Refund of excess reserves	4,098,854	-	-	4,098,854
Total operating cash disbursements	<u>19,782,763</u>	<u>2,204,471</u>	<u>345,263</u>	<u>22,332,497</u>
Excess of operating cash receipts over (under) operating cash disbursements	<u>(4,034,146)</u>	<u>61,879</u>	<u>(21,791)</u>	<u>(3,994,058)</u>
Non-operating cash receipts / disbursements				
Interest	623,409	7,851	1,121	632,381
Transfers - in	923,068	-	-	923,068
Advances - in	-	-	32,500	32,500
Refund of prior year expenditures	-	-	1,428	1,428
Transfers - out	(923,068)	-	-	(923,068)
Advances - out	-	(32,500)	-	(32,500)
Total non-operating cash receipts / disbursements	<u>623,409</u>	<u>(24,649)</u>	<u>35,049</u>	<u>633,809</u>
Increase (decrease) in net cash assets	(3,410,737)	37,230	13,258	(3,360,249)
Net cash assets at beginning of year	<u>14,175,290</u>	<u>668,992</u>	<u>20,244</u>	<u>14,864,526</u>
Net cash assets at end of year	<u>\$ 10,764,553</u>	<u>\$ 706,222</u>	<u>\$ 33,502</u>	<u>\$ 11,504,277</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, 2008

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, 2008, 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 is comprised of ten Lorain County school districts, including the Educational Service Center. The pool was formed to carry out a cooperative program for the provision and administration of health care benefits. Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. The pool premiums are billed to each participating school district based on actuarially determined rates. Claims are paid for all participants regardless of claims flow or individual account balance. The Council receives an actuarial opinion statement annually assessing the claims liability of the insurance purchasing pool.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

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

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

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

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008, the Council’s major enterprise funds were 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.

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.

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, 2008

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 \$ 3,399,899, including \$ 2,718,337 in certificates in deposits, and the bank balance was \$ 3,684,558. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2008, \$ 2,845,268 of the Council's bank balance was covered by Federal Depository Insurance and \$ 839,290 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, 2008, 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, 2008, fair market value of investments was \$ 8,104,378. 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, 2008

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 99.6 percent of the Council's total investments. Investments at June 30, 2008 were as follows:

	Fair Value	Credit Rating	Investment Maturities		
			< 1 Year	1 - 2 Years	3 - 5 Years
STAROhio	\$ 33,684	AAAm	\$ 33,684	\$ -	\$ -
U.S. Agencies	8,070,694	AAA	1,518,241	-	6,552,453
Total	\$ 8,104,378		\$ 1,551,925	\$ -	\$ 6,552,453

NOTE 4 BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2008 is as follows, which includes encumbrances of \$ 108,518:

	2008 Budgeted vs. Actual		
	Budget	Actual	Variance
<u>Enterprise Fund Type</u>			
Receipts	<u>\$ 19,927,816</u>	<u>\$ 19,927,816</u>	<u>\$ -</u>
Expenditures	<u>\$ 23,468,967</u>	<u>\$ 23,396,583</u>	<u>\$ 72,384</u>

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008, the following fees were paid to the Educational Service Center by the Council:

Service	Amount
Media Center	\$ 3,660
Health Insurance	60,000
Natural Gas	16,998
Life Insurance	3,541
Total	\$ 84,199

NOTE 6 RISK MANAGEMENT

A. INSURANCE PURCHASING POOL

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

As a result of the Council's health insurance program becoming fully pooled as of July 1, 2007, these member school districts have the following monies owed to them at June 30, 2008:

Member District	Cash Position
Amherst	\$ 7,600
Clearview	3,000
Keystone	963,000
Lorain County JVS	1,000
Midview	417,000
Vermilion	530,000
Total	\$ 1,921,600

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 RISK MANAGEMENT (continued)

A. INSURANCE PURCHASING POOL (continued)

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 2008, 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.

The Council reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities at June 30, 2008:

	<u>2008</u>	<u>2007</u>
Cash and Investments	\$ 10,504,279	\$ 13,911,435
Actuarial Liabilities	\$ 3,042,000	\$ 4,300,000

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.

LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS
LORAIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 SEGMENT INFORMATION

The Council maintains separate enterprise fund accounts for the various cooperative programs offered. Separate account information for these programs for the year ended June 30, 2008 is as follows:

	Insurance Purchasing Pool	Natural Gas Consortium	Media Center	Life Insurance	Total Enterprise Funds
Net cash assets, June 30, 2007	\$ 14,175,290	\$ 668,992	\$ 16,135	\$ 4,109	\$ 14,864,526
Operating receipts	15,748,617	2,266,350	133,240	190,232	18,338,439
Operating disbursements	19,782,763	2,204,471	175,409	169,854	22,332,497
Operating receipts over (under) operating disbursements	(4,034,146)	61,879	(42,169)	20,378	(3,994,058)
Non-operating:					
Receipts	1,546,477	7,851	35,049	-	1,589,377
Disbursements	(923,068)	(32,500)	-	-	(955,568)
Increase (decrease) in net cash assets	(3,410,737)	37,230	(7,120)	20,378	(3,360,249)
Net cash assets, June 30, 2008	\$ 10,764,553	\$ 706,222	\$ 9,015	\$ 24,487	\$ 11,504,277

NOTE 8 SUBSEQUENT EVENTS

During 2008 the Board of Directors voted to discontinue the media service center and natural gas purchasing consortium programs as of July 1, 2008. These program's net cash assets at June 30, 2008 will be used to pay any outstanding obligations of the respective programs, with any excess being refunded to the participating member districts.

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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
1885 Lake Avenue
Elyria, Ohio 44035

We have audited the financial statements of the business-type activities of the Lake Erie Regional Council of Governments, (the Council) as of and for the year ended June 30, 2008, which collectively comprise the Council's basic financial statements and have issued our report thereon dated February 27, 2009. wherein we noted the Council follows the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, the Council did not present the required supplementary information as required by Government Auditing Standards Board Statement No. 10, paragraph 50. 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 the Comptroller General of the United States' Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 Council's financial statements that is more than inconsequential will not be prevented or detected by the Council'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 Council'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 weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Lake Erie Regional Council of Governments

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*

Page 2

Compliance and Other Matters

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

We intend this report solely for the information and use of management and the Board of Directors. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 27, 2009



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
MAY 7, 2009