

**MID EAST OHIO
REGIONAL COUNCIL
KNOX COUNTY, OHIO**

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*

**CATHY HENTHORN,
ASSOCIATE DIRECTOR
OF BUSINESS**



**Auditor of State
Betty Montgomery**

Board of Directors
Mid East Ohio Regional Council
Mt. Vernon, Ohio

We have reviewed the *Independent Auditor's Report* of the Mid East Ohio Regional Council, Knox County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Mid East Ohio Regional Council is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 3, 2006

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**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Board of Directors
Mid East Ohio Regional Council
160 Columbus Road
Mt. Vernon, OH 43050

We have audited the accompanying financial statements of the Mid East Ohio Regional Council (the "Council"), Ohio, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mid East Ohio Regional 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mid East Ohio Regional Council, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005, on our consideration of the Mid East Ohio Regional 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. 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.

Board of Directors
Mid East Ohio Regional Council
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The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Council. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 23, 2005

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of Mid East Ohio Regional Council's (the "Council") financial performance provides an overall review of the Council's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- Net assets increased \$532,436, which represents a 4.3% increase from 2004.
- The Council's revenues totaled \$5,300,747 in fiscal 2005. Expenses amounted to \$4,786,311.

Using the Basic Financial Statements

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

This annual report consists of two parts - Management's Discussion and Analysis and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. Since the Council only uses one fund for its operations, the entity wide and fund presentation information are the same.

The statement of net assets and statement of revenues, expenses and changes in net assets answers the question, "How did we do financially during 2004?" These statements include all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Council's net assets; however, in evaluating the overall position of the Council's non-financial information such as changes in the condition of the Council's capital assets will also need to be evaluated.

The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-20 of this report.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below provides a comparative analysis of the Council's net assets for 2005 and 2004.

	Net Assets	
	<u>FY 2005</u>	<u>FY 2004</u>
<u>Assets</u>		
Current assets	\$ 13,907,022	\$ 13,609,886
Capital assets	<u>80,187</u>	<u>85,701</u>
Total assets	<u>13,987,209</u>	<u>13,695,587</u>
<u>Liabilities</u>		
Current liabilities	<u>1,138,496</u>	<u>1,379,310</u>
Total liabilities	<u>1,138,496</u>	<u>1,379,310</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	80,187	85,701
Restricted	502,897	527,814
Unrestricted	<u>12,265,629</u>	<u>11,702,762</u>
Total net assets	<u>\$ 12,848,713</u>	<u>\$ 12,316,277</u>

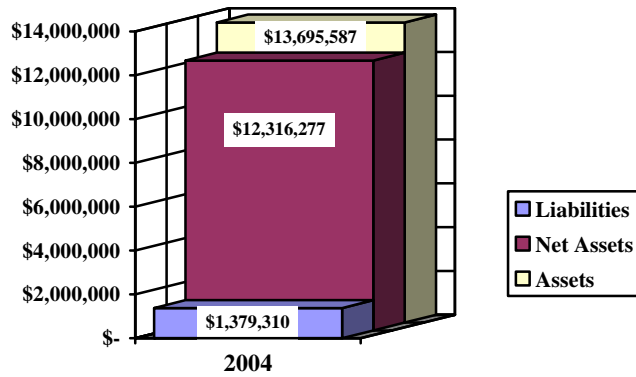
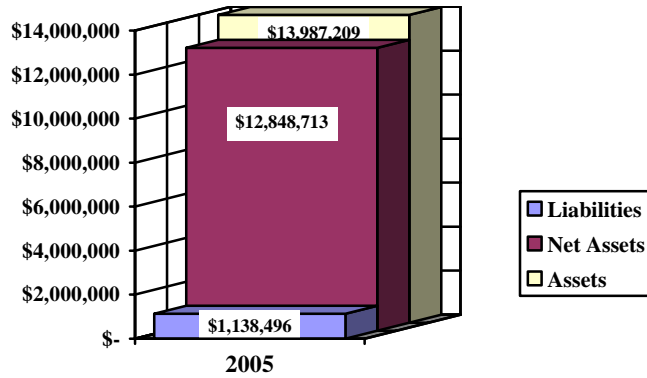
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Council's assets exceeded liabilities by \$12,848,713.

A portion of the Council's net assets, \$502,897, represents resources that are subject to external restriction on how they may be used. The Council has \$80,187 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net assets of \$12,265,629 may be used to meet the Council's ongoing activities.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The tables below provide a comparison of the Council's net assets for 2005 and 2004.



The table below shows a comparison of the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	<u>FY 2005</u>	<u>FY 2004</u>
<u>Operating Revenues</u>		
Intergovernmental-intermediate	\$ 500,874	\$ 475,870
Intergovernmental-state	3,988,802	4,815,925
Intergovernmental-federal	402,524	503,712
Other local revenues	137,034	6,051
<u>Nonoperating Revenues</u>		
Earnings on investments	<u>271,513</u>	<u>116,202</u>
 Total revenues	 <u>5,300,747</u>	 <u>5,917,760</u>

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

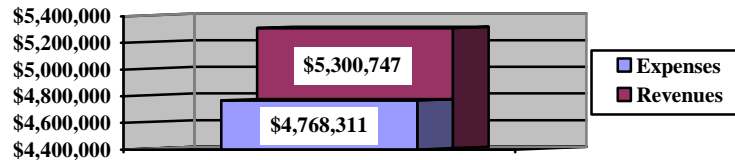
<u>Operating Expenses</u>	<u>FY2005</u>	<u>FY2004</u>
Salaries and benefits	\$ 1,063,750	\$ 1,205,010
Provider services	539,568	645,176
Rent	143,321	152,815
County expense	4,900	105,000
Other supported living	157,581	206,402
Specialized residential services	438,072	236,701
Room and board	166,758	246,928
IO waiver	1,784,031	1,796,909
Travel and training	78,134	90,754
Professional expense	102,077	121,287
Administrative overhead	71,882	90,970
Depreciation	9,164	12,704
Other expenses	26,667	22,136
<u>Nonoperating Expenses</u>		
Return of equity to county	<u>182,406</u>	<u>935,365</u>
Total expenses	<u>4,768,311</u>	<u>5,868,157</u>
Changes in net assets	<u>\$ 532,436</u>	<u>\$ 49,603</u>

Governmental Activities

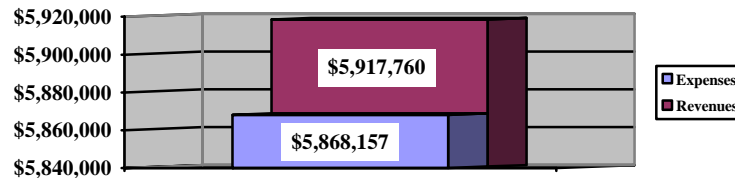
The Council's net assets increased \$532,436. Total expenses of \$4,768,311 were offset by revenues of \$5,300,747.

The graphs below compare the Council's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Revenues and Expenses 2005



Revenues and Expenses 2004



**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Budgeting Highlights

Although the Council is not required to prepare a budget according to Ohio law, an annual budget is completed for management purposes. Budget information is reported to the Council members.

Capital Assets

At the end of fiscal 2005, the Council had \$80,187 invested in furniture and equipment. This total amount was reported on the statement of net assets. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Furniture and equipment	<u>\$ 80,187</u>	<u>\$ 85,701</u>

The overall decrease in capital assets of \$5,514 is due to depreciation expense of \$9,164 exceeding capital outlay of \$3,650 in the fiscal year.

See Note 6 to the basic financial statements for additional information on the Council's capital assets.

Current Financial Related Activities

The Council has developed three advisory councils in accordance with its by-laws, the Major Unusual Incidents Advisory Council, (MUI), the Accreditation Readiness Advisory Council, (ARAC), and the Supported Living Advisory Council, (SLAC). Each advisory council has the responsibility to generate its own revenue and is responsible for its own annual budget once approved by the Council.

SLAC's current fiscal position is good and will remain good with frequent oversight by the Board. As the preceding information reveals, SLAC relies heavily upon Federal, State, and County Board of Mental Retardation and Developmental Disabilities funds for its operations. In fiscal year 2005 there are 13 county members participating in SLAC. In fiscal year 2006 there are 12 county members of SLAC. This will result in less revenue, but will also result in less expenses.

SLAC is in the process of evaluating its services to make them more attractive to other potential clients and thus attracting additional revenues by offering its services in distinct parts rather than an all or nothing member participation concept as has been the practice in the past. Federal, state funds and local funds will almost certainly not increase, and more probably, will decrease, although requiring even more paper accountability. This will impact the number of people that can be served and the level of services that will be provided to our member County Boards. The future financial stability of SLAC, therefore, is not without challenges.

In addition, the Director of SLAC will be retiring in the spring of 2006. The Board has implemented a succession plan and is in the process of evaluating the Council's future as a whole. The purpose of the evaluation is to develop a plan for the Council as the agency transitions to new leadership and intends to remain proactive in meeting the challenges and demands of a rapidly changing service system.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

As anticipated and described in the analysis for fiscal 2005, the MUI was impacted greatly by the change in the Targeted Case Management (TCM) rates. With the decline in revenue, the MUI participating members approved an increase in the fees contributed by the County Boards by 50% to assist in the annual operations of the Council for fiscal 2006. This necessity was caused not only by the decline in TCM rates but also the total elimination of the functions of the Investigative Agent being included as part of TCM. As of July 1, 2005, all staff employed through the MUI maintains periodic documentation and submits billing in accordance with the newly established billing procedures of Waiver Administrative Claiming (WAC). The loss of revenue associated with the change from TCM in 2003 and WAC in 2005 is estimated to account for at least 25% of the entire revenue. The revenue generated by WAC is closely being monitored and evaluated by the Council's Finance Committee on a quarterly basis to ensure that operating expenses do not exceed revenue for fiscal 2006 and to take steps as needed to ensure financial operation. Even with the changes in funding and the loss of revenue the member counties participating in the MUI Project remains maximized with all 17 counties currently receiving services.

ARAC's current fiscal position is stable. Member county boards solely fund the council. A substantial carry over has afforded the council the ability to lower their annual membership fees in fiscal year 2006. The annual fee reduction is due to the current state of reduced funding to local governments. Local funding trends have a direct impact on ARAC members. Long term, the council will need to address the lowering of the fees prior to fiscal 2008 as a deficit is projected in the future as the carryover is depleted.

In conclusion, the Council and its Member County Boards are committed to financial stability and soundness into the future. Members are actively and regularly involved in reviewing revenue and expenses of each Advisory Council.

Contacting the Council's Financial Management

This financial report is designed to provide our Council members with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Henthorn, Associate Director of Business, Mid East Ohio Regional Council, 160 Columbus Road, Mt. Vernon, Ohio 43050.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Equity in cash and cash equivalents.	\$ 13,279,413
Receivables:	
Due from other governments	605,966
Prepayments	21,643
Capital assets:	
Depreciable capital assets, net	80,187
	13,987,209
Total assets.	13,987,209
Liabilities:	
Accounts payable.	350,888
Knox county board payable	787,608
	1,138,496
Total liabilities	1,138,496
Net Assets:	
Invested in capital assets, net	
of related debt.	80,187
Restricted for:	
Restricted for supported living	344,622
Restricted for house bill 94	158,275
Unrestricted	12,265,629
	12,668,526
Total net assets	\$ 12,848,713

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues:	
Intergovernmental - Intermediate	\$ 500,874
Intergovernmental - State	3,988,802
Intergovernmental - Federal	402,524
Other local revenues	137,034
Total revenues	<u>5,029,234</u>
Operating Expenses:	
Salaries and benefits	1,063,750
Provider services	539,568
Rent	143,321
County expense.	4,900
Other supported living	157,581
Specialized residential services	438,072
Room and board.	166,758
IO waiver	1,784,031
Travel and training.	78,134
Professional expense.	102,077
Administrative overhead.	71,882
Depreciation	9,164
Other expenses	26,667
Total expenses.	<u>4,585,905</u>
Operating income	<u>443,329</u>
Nonoperating revenues and (expenses):	
Investment earnings.	271,513
Return of equity to County	(182,406)
Total nonoperating revenues and (expenses)	<u>89,107</u>
Change in net assets	532,436
Net assets at beginning of year.	12,316,277
Net assets at end of year	<u>\$ 12,848,713</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Cash flows from operating activities:	
Cash received from other governments	\$ 4,972,727
Cash received from other operations	137,034
Cash payments for supported living	(4,383,083)
Cash payments for accreditation readiness	(79,079)
Cash payments for major unusual incidents	<u>(354,007)</u>
Net cash provided by operating activities	<u>293,592</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,650)
Cash payments for counties equity interest	<u>(182,406)</u>
Net cash used in capital and related financing activities .	<u>(186,056)</u>
Cash flows from investing activities:	
Cash received from interest earned	<u>271,513</u>
Net cash provided by investing activities	<u>271,513</u>
Net increase in cash and cash equivalents	379,049
Cash and cash equivalents at beginning of year	<u>12,900,364</u>
Cash and cash equivalents at end of year.	<u><u>\$ 13,279,413</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 443,329
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,164
Changes in assets and liabilities:	
Decrease in due from other governments	80,527
Decrease in prepayments	1,386
Decrease in accounts payable	(137,395)
Decrease in intergovernmental payable	<u>(103,419)</u>
Net cash provided by operating activities	<u><u>\$ 293,592</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE REGIONAL COUNCIL

Mid East Ohio Regional Council (the "Council") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by law. The Council is made up of the Boards of Mental Retardation and Developmental Disabilities of 17 counties pursuant to Chapter 167 of the Ohio Revised Code. The Council may not exceed the scope of the authority possessed by its member organizations.

Management believes the basic financial statements included in this report represent all of the activities of the Council over which it has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Council has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 subject to this same limitation. The Council has elected not to apply these FASB Statements and Interpretations. The Council's significant accounting policies are described below.

A. Reporting Entity

The Council's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB 39 "Determining Whether Certain Organizations are Component Units". The financial statements include all operations for which the Council is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organizations other than the Council itself are included in the financial reporting entity.

Based on the foregoing criteria, there were no potential component units for the fiscal year reported on in the basic financial statements in accordance with GASB Statement Nos. 14 and 39.

B. Fund Accounting

The Council uses a single fund to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Council activities or functions.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

A proprietary fund is used to account for the Council's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds. The Council does not have internal service funds.

Enterprise Funds - The enterprise fund is used 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 (expenses, including depreciation) 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 Council's only enterprise fund is the following:

Operations Fund - This fund accounts for the administration of supported living services, accreditation readiness services and major unusual investigative services.

C. Basis of Presentation and Measurement Focus

The Council's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Council uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its proprietary activities.

D. Cash and Cash Equivalents

To improve cash management, cash received by the Council is pooled. The pool is presented as "Equity in pooled cash and cash equivalents" on the Statement of Net Assets.

During fiscal year 2005, investments were limited to STAR Ohio, money market and federal securities. Investments are reported at fair value which is based on quoted market prices.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

STAR 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 does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005. Interest earned during the year was \$271,513.

For presentation on the statement of net assets and statement of cash flows, investments with original maturities of three months or less at the time they are purchased by the Council are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Council's investment accounts at year end is provided in Note 4.

E. Prepayments

Prepayments represent expenses which have occurred and are therefore not current expendable resources. These items are reported as an asset on the statement of net assets using the consumption method.

F. Capital Assets

Capital assets utilized by the Council are reported on the statement of net assets.

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Council maintains a capitalization threshold of \$250. Donated capital assets are recorded at their fair market values as of the date received. The Council does not possess any infrastructure. The Council's assets consist of furniture and equipment only.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture/equipment	7 years

G. Payroll and Related Fringe Benefits

The Council contracts with the Knox County Board of Mental Retardation and Developmental Disabilities (MRDD) for payroll services and fringe benefits, including contributing to the Ohio Public Employees Retirement System of Ohio (OPERS), consistent with Knox County policies and practices. The Council determines the salary, fringe benefits, and other options it elects to provide and notifies the Board.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are restricted for supported living and House Bill 94.

The Council applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

K. Budgetary Process

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council does pass an annual budget for the fiscal year. Modifications to the budget are approved by the Board when necessary.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the Council has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Council, however additional note disclosure can be found in Note 4.

NOTE 4 - DEPOSITS AND INVESTMENTS

Statutes require the classification of 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 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 deposits are deposits of interim monies. 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 accounts, including passbook accounts.

Protection of the Council's deposits are 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.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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;

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 two percent and be marked to market daily, and that 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) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of the Council's deposits was \$714,885. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, all of the Council's bank balance of \$783,371 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Council's deposits may not be returned. 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 the Ohio revised Code, is held in single financial institution collateral 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

B. Investments

As of June 30, 2005, the Council had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>24 to 30 months</u>
STAR Ohio	\$ 6,244,024	\$ 6,244,024	\$ -
FNMA	1,139,932	-	1,139,932
Money Market	3,613,668	3,613,668	-
U.S. Treasury Bill	1,566,904	1,566,904	-
	<u>\$ 12,564,528</u>	<u>\$ 11,424,596</u>	<u>\$ 1,139,932</u>

The weighted average maturity of investments is .34 years.

Interest Rate Risk: As a means of limiting its exposure to fair 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.

Credit Risk: The Council's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The Council places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at June 30, 2005:

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 investment or collateral securities that are in the possession of an outside party. Of the Council's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Council.

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 6,244,024	49.70
U.S. Treasury Bill	1,566,904	12.47
Money Market	3,613,668	28.76
FNMA	1,139,932	9.07
	<u>\$ 12,564,528</u>	<u>100.00</u>

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005 consisted of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net assets follows:

Due from other governments	<u>\$ 605,966</u>
----------------------------	-------------------

All receivables are expected to be collected within subsequent years.

NOTE 6 - FIXED ASSETS

A summary of the changes in the capital assets during the fiscal year follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/05</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 153,022	\$ 3,650	\$ (5,155)	\$ 151,517
Less: accumulated depreciation	<u>(67,321)</u>	<u>(9,164)</u>	<u>5,155</u>	<u>(71,330)</u>
Capital assets, net	<u>\$ 85,701</u>	<u>\$ (5,514)</u>	<u>\$ -</u>	<u>\$ 80,187</u>

NOTE 7 - RISK MANAGEMENT

A. Comprehensive

The Council is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the Council retained property insurance and liability coverage.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the previous year.

B. Employee Dishonesty Bonds

The Council carries employee dishonesty bonds for the employees and Board Members in the amount of \$125,000.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 8 - CONTINGENCIES

A. Grants

The Council receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the basic financial statements of the individual fund types included herein or on the overall financial position of the Council at June 30, 2005.

B. Litigation

The Council is currently a party to a legal proceeding, however, the outcome is indeterminable at this time.

NOTE 9 - RETIREMENT SYSTEM

The Council participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement systems to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 135 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended June 30, 2005, the members were required to contribute 8.5% of their annual covered salaries. The Council's contribution rate for pension benefits for fiscal 2005 was 9.55%. The Ohio Revised Code provides statutory authority for member and employer contributions.

As of June 30, 2005, the Council has paid all contributions required for fiscal year 2005.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 10 - SUBSEQUENT EVENTS

The Director of Residential Supports, Loren Phelps, has notified the Council of his intention to retire at the end of fiscal year 2006. The Council has developed a succession plan.

MID EAST OHIO REGIONAL COUNCIL
 SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
State Children's Insurance Program	93.767	N/A	\$ 342	\$ 342
Targeted Case Management	93.778	N/A	112,044	112,044
Medical Assistance Program	93.778	N/A	401,101	401,101
Total Medical Assistance Program			<u>513,145</u>	<u>513,145</u>
Total Federal Financial Assistance			<u>\$ 513,487</u>	<u>\$ 513,487</u>

(A) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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
Mid East Ohio Regional Council
160 Columbus Road
Mt. Vernon, OH 43050

We have audited the financial statements of the Mid East Ohio Regional Council as of and for the fiscal year ended June 30, 2005, which collectively comprise the Mid East Ohio Regional Council's basic financial statements and have issued our report thereon dated November 23, 2005. 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 Mid East Ohio Regional Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Mid East Ohio Regional Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mid East Ohio Regional Council'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*.

This report is intended solely for the information and use of the management and Board of Directors of the Mid East Ohio Regional Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 23, 2005



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Directors
Mid East Ohio Regional Council
160 Columbus Road
Mt. Vernon, OH 43050

Compliance

We have audited the compliance of the Mid East Ohio Regional Council, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2005. The Mid East Ohio Regional Council's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Mid East Ohio Regional Council's management. Our responsibility is to express an opinion on the Mid East Ohio Regional Council's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mid East Ohio Regional Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mid East Ohio Regional Council's compliance with those requirements.

Board of Directors
Mid East Ohio Regional Council

In our opinion, Mid East Ohio Regional Council, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

The management of Mid East Ohio Regional Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mid East Ohio Regional Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors of Mid East Ohio Regional Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
November 23, 2005

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Targeted Case Management and Medical Assistance Program - CFDA #93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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MID EAST OHIO REGIONAL COUNCIL

KNOX 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
FEBRUARY 16, 2006**