

NORTH EAST OHIO NETWORK
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

North East Ohio Network

We have reviewed the Independent Auditor's Report of the North East Ohio Network, Trumbull County, prepared by Cohen & Company, for the audit period January 1, 2003 through December 31, 2003. 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 North East Ohio Network is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 20, 2004

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NORTH EAST OHIO NETWORK

DECEMBER 31, 2003

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BOARD OF NORTH EAST OHIO NETWORK

Independent Auditors' Report

We have audited the accompanying general purpose financial statements of North East Ohio Network as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of North East Ohio Network as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedule of funds administered for county boards is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2004 on our consideration of North East Ohio Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cohen & Company

June 24, 2004
Youngstown, Ohio

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

DECEMBER 31, 2003

	<i>Governmental Fund General</i>	<i>Fiduciary Fund Agency</i>	<i>Asset Group General Fixed Assets</i>	Totals (Memorandum Only)
ASSETS				
Cash and cash equivalents	\$ 436,627	\$ 5,983,757		\$ 6,420,384
Investments	952,108	8,855,000		9,807,108
Deposits and prepaid expenses	14,275			14,275
Accounts receivable from other governments	163,229			163,229
Office equipment			\$ 128,836	128,836
Furniture and fixtures			7,542	7,542
Total assets	\$ 1,566,239	\$ 14,838,757	\$ 136,378	\$ 16,541,374
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES				
Due to other governments		\$ 14,838,757		\$ 14,838,757
Accrued wages and benefits	\$ 29,243			29,243
Total liabilities	29,243	14,838,757		14,868,000
COMMITMENTS AND CONTINGENCIES				
EQUITY AND OTHER CREDITS				
Investment in general fixed assets			\$ 136,378	136,378
Fund balance	1,536,996			1,536,996
Total equity and other credits	1,536,996		136,378	1,673,374
Total liabilities, equity and other credits	\$ 1,566,239	\$ 14,838,757	\$ 136,378	\$ 16,541,374

The accompanying notes are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND TYPE

YEAR ENDED DECEMBER 31, 2003

	General
REVENUES	
Waiver administration	\$ 1,080,341
Federal financial participation reimbursement	129,130
Family resource program administration fee	111,610
Major unusual incidents fee	205,724
Quality assurance	11,012
State cost reimbursement	342,202
Investment earnings	21,137
Net increase in fair value of investments	16,019
Other	7,702
	1,924,877
EXPENDITURES	
Current:	
Health	
Wages	596,993
Employee benefits	206,687
Payroll taxes	14,885
Professional fees	26,064
Insurance	7,908
Office expense	65,177
Rent	71,690
Software	24,087
Telephone	25,236
Postage	14,260
Travel and meals	40,601
Seminars and training	8,064
Capital outlay	14,077
Miscellaneous	9,094
	1,124,823
EXCESS OF REVENUES OVER EXPENDITURES	800,054
FUND BALANCE – BEGINNING OF YEAR	736,942
FUND BALANCE – END OF YEAR	\$ 1,536,996

The accompanying notes are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2003

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Waiver administration	\$ 818,400	\$ 1,080,341	\$ 261,941
Federal financial participation reimbursement	108,000	129,130	21,130
Family resource program administration fee	132,500	111,610	(20,890)
Major unusual incidents fee	143,895	205,724	61,829
Quality assurance	64,850	11,012	(53,838)
State cost reimbursement		342,202	342,202
Investment earnings	9,500	21,137	11,637
Net increase in fair value of investments		16,019	16,019
Other	3,000	7,702	4,702
	<u>1,280,145</u>	<u>1,924,877</u>	<u>644,732</u>
EXPENDITURES			
Current:			
Health			
Wages	638,247	596,993	41,254
Employee benefits	208,130	206,687	1,443
Payroll taxes	37,907	14,885	23,022
Professional fees	25,000	26,064	(1,064)
Insurance		7,908	(7,908)
Office expense	35,000	65,177	(30,177)
Rent	75,000	71,690	3,310
Software	25,000	24,087	913
Telephone	25,000	25,236	(236)
Postage		14,260	(14,260)
Travel and meals	35,000	40,601	(5,601)
Seminars and training	15,000	8,064	6,936
Capital outlay	23,000	14,077	8,923
Miscellaneous	14,000	9,094	4,906
	<u>1,156,284</u>	<u>1,124,823</u>	<u>31,461</u>
EXCESS OF REVENUES OVER EXPENDITURES	123,861	800,054	676,193
FUND BALANCE – BEGINNING OF YEAR	<u>736,942</u>	<u>736,942</u>	
FUND BALANCE – END OF YEAR	<u>\$ 860,803</u>	<u>\$ 1,536,996</u>	<u>\$ 676,193</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ENTITY

North East Ohio Network (the Organization) is a regional council of governments formed pursuant to Chapter 167 of the Ohio Revised Code by member county boards of mental retardation and development disabilities. The member counties are Ashland, Ashtabula, Columbiana, Geauga, Lake, Lorain, Mahoning, Medina, Portage, Stark, Trumbull and Wayne. The purpose of the Organization is to better serve and benefit persons with disabilities in each member county by coordinating the powers and duties of the member boards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Organization are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Organization has the following fund types and account groups:

Governmental funds are used to account for the Organization's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

The only governmental fund is the general fund which is the Organization's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Organization holds for its member county boards.

Account groups. The general fixed assets account group is used to account for fixed assets.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments, primarily certificates of deposit, government securities, preferred stock, and corporate bonds are stated at fair value.

Fixed Assets

Fixed assets used in the governmental fund type of the Organization are recorded in the general fixed assets account group at cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid expenses.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund. All annual appropriations lapse at year end. The budget is prepared by the Business Manager and approved by the Board of North East Ohio Network. The appropriate budget is prepared by fund and function. The legal level of budgetary control is the function level. Budget amounts are as amended by the Board.

State Cost Recovery

Revenue from the State of Ohio for certain services provided by the Organization is based on tentative payment rates. Final reimbursement is determined after submission of annual cost reports. Revenue is adjusted as required in subsequent periods based on final settlements. During 2003, the Organization received \$246,031 from the State of Ohio for the calendar years 1999, 2000, and 2001. An additional \$96,171 was accrued for the 2002 reimbursement, which was received in January 2004.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

3. CASH, DEPOSITS AND INVESTMENTS

The Organization invests in those instruments authorized by its written investment policy filed with the Auditor of State which include (1) Bonds, notes, or other obligations guaranteed by the United States; (2) Bonds, notes or other obligations issued by any Federal government agency; (3) Repurchase agreements under the terms of which agreement the Organization purchases and the seller agrees unconditionally to repurchase any of the securities listed in (1) or (2); (4) Bonds and other obligations of Ohio; (5) No load money market mutual funds and (6) Investment grade corporate or commercial paper including preferred stock (up to a maximum of 25% of total investment assets).

Any public depository at the time it receives a deposit or investment is required to pledge to the investing authority, as collateral, eligible securities of aggregate market value that, when added to the portion of the insured deposit by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, equals or exceeds the amount of Organization funds deposited. A public depository may, at its option, pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current market value at least equal to 110% of all public monies on deposit with the depository including the amount covered by federal insurance.

The Government Accounting Standards Board (GASB Statement No. 3) has established credit risk categories for deposits and investments as follows:

Category 1 – Investments that are insured or registered, or securities held by the Organization or its agent in the Organization's name. Deposits that are insured or collateralized with securities held by the Organization or its agent in the Organization's name.

Category 2 – Investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the Organization's name. Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name.

Category 3 – Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agency but not in the Organization's name. Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Organization's name.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

3. CASH, DEPOSITS AND INVESTMENTS (continued)

All deposits and investments are held in Merrill Lynch accounts in the name of the Organization or jointly in the name of the Organization and the individual county. All amounts held by Merrill Lynch are covered by Federal Deposit Insurance, Securities Investor Protection Corporation (SIPC) insurance, Excess SIPC coverage provided by surety bond, or financial guaranty insurance and, therefore, all deposits and investments are considered to be Category 1. The bank balance of deposits and carrying amount of investment balances are as follows:

	Category			Bank Balance	Carrying Amount	Market Value
	1	2	3			
Deposits	<u>\$ 6,420,384</u>			<u>\$ 6,688,294</u>		
Investments						
Certificates of deposit	\$ 5,773,284				\$ 5,773,284	\$ 5,773,284
Preferred stock	795,000				795,000	795,000
Corporate bonds	249,320				249,320	249,320
Government securities	2,989,504				2,989,504	2,989,504
	<u>\$ 9,807,108</u>				<u>\$ 9,807,108</u>	<u>\$ 9,807,108</u>

4. GENERAL FIXED ASSETS ACCOUNT GROUP

A summary of changes in the general fixed assets account group follows:

	Balance January 1, 2003	Additions	Disposals	Balance December 31, 2003
Office equipment	\$ 131,507	\$ 14,077	\$ 16,748	\$ 128,836
Furniture and fixtures	<u>7,542</u>			<u>7,542</u>
	<u>\$ 139,049</u>	<u>\$ 14,077</u>	<u>\$ 16,748</u>	<u>\$ 136,378</u>

5. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS

OPERS

All North East Ohio Network full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple-employer defined benefit public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.50%. The employer contribution rate was 13.55% of covered payroll; 8.55% was the portion used to fund pension obligations for 2003. The Organization's required contributions for pension obligations to PERS for the years ended December 31, 2003, 2002, and 2001 were \$56,713, \$43,422 and \$47,039, respectively, all of which had been paid as of December 31, 2003.

Other Postemployment Benefits

The Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. For 2003, the employer rate was 13.55% of covered payroll; 5.00% was the portion used to fund health care. The portion of the Organization's 2003 contributions actually used to fund postretirement benefits was \$33,165.

Benefits are advance-funded using an entry age normal actuarial cost method of valuation to determine the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. Investment assets are valued at cost or amortized cost and for actuarial valuation purposes, are subject to adjustment for non-temporary market declines or to reflect 25% of unrealized market appreciation or depreciation.

Significant assumptions from the last actuarial review, performed as of December 31, 2002 (latest information available), also include: a rate of return on investments of 8.00%; annual salary increases of 4.00% and between 0.50% and 6.3% for seniority and merit increases (assuming no change in the number of active employees); and annual health care premium increases of 4.00%.

The number of active contribution participants at December 31, 2002 was 364,881. The net assets available for OPEB at December 31, 2002 (the latest information available) were \$10.0 billion and the actuarial accrued liability, based on the cost method used, was \$18.7 billion, leaving an unfunded actuarial liability of \$8.7 billion.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts and general liability; theft of, damage to, and destruction of assets, natural disasters; errors and omissions; and injuries to employees. The Organization maintains insurance to cover these risks. There has been no significant reduction in insurance coverage from the prior years. There have been no claims or settlements since the inception of the Organization.

7. COMMITMENTS AND CONTINGENCIES

Lease

The Organization rents office space under an operating lease expiring in 2007, with an option to renew for an additional five years. Rent expense for 2003 was \$63,000.

Minimum annual rentals are as follows:

2004	\$	63,000
2005		63,000
2006		63,000
2007		<u>57,750</u>
	\$	<u>246,750</u>

8. FUTURE CHANGE IN ACCOUNTING PRINCIPLE

In 2004, the Organization will adopt GASB Statement No. 34, "Basic Financial Statements – and Managements' Discussion and Analysis – for State and Local Governments", GASB Statement No. 37 "Basic Financial Statements – Managements' Discussion and Analysis – for State and Local Governments: Omnibus" and Statement No. 38 "Certain Financial Statement Note Disclosures". These statements require the creation of new basic financial statements for reporting the Organization's financial activities. Management is currently assessing the impact of these changes on the Organization's financial statements.

SCHEDULE OF FUNDS ADMINISTERED FOR COUNTY BOARDS

YEAR ENDED DECEMBER 31, 2003

	<u>Ashtabula</u>	<u>Columbiana</u>	<u>Geauga</u>	<u>Lake</u>	<u>Lorain</u>	<u>Mahoning</u>	<u>Medina</u>	<u>Portgage</u>	<u>Stark</u>	<u>Trumbull</u>	<u>Wayne</u>	<u>Total</u>
Cash and investment balance - January 1, 2003	\$ 945,310	\$ 2,603,874	\$ 17,370	\$ 1,633,013	\$ 834,853	\$ 397,036	\$ 1,040,436	\$ 1,620,929	\$ 1,498,910	\$ 118,784	\$ 401,207	\$ 11,111,722
Funds received	402,675	483,475	230,645	1,518,910	1,388,161	3,512,971	2,407,517	5,051,265	2,365,317	71,598	899,616	18,332,150
Investment earnings	21,255	62,960	144	15,353	7,360	8,257	17,999	54,166	35,837	466	9,280	233,077
Program expenses	(652,877)	(373,756)	(245,222)	(898,367)	(1,254,970)	(3,519,941)	(900,918)	(2,726,724)	(3,111,410)	(158,575)	(988,107)	(14,830,867)
Bank service charges	<u>(560)</u>	<u>(600)</u>	<u>(300)</u>	<u>(930)</u>	<u>(1,349)</u>	<u>(540)</u>	<u>(560)</u>	<u>(620)</u>	<u>(755)</u>	<u>(810)</u>	<u>(300)</u>	<u>(7,324)</u>
Cash and investment balance - December 31, 2003	<u>\$ 715,803</u>	<u>\$ 2,775,953</u>	<u>\$ 2,637</u>	<u>\$ 2,267,979</u>	<u>\$ 974,055</u>	<u>\$ 397,783</u>	<u>\$ 2,564,474</u>	<u>\$ 3,999,016</u>	<u>\$ 787,899</u>	<u>\$ 31,463</u>	<u>\$ 321,696</u>	<u>\$ 14,838,757</u>

Note: Funds held in individual accounts for each county

BOARD OF NORTH EAST OHIO NETWORK

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

We have audited the general purpose financial statements of North East Ohio Network (the Organization) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 24, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. However, we noted other immaterial matters involving the internal control over financial reporting that we have reported to the management of the Organization in a separate letter dated June 24, 2004.

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

Cohen & Company

June 24, 2004
Youngstown, Ohio



**Auditor of State
Betty Montgomery**

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NORTH EAST OHIO NETWORK

TRUMBULL 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
AUGUST 5, 2004**