

NORTH EAST OHIO NETWORK
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Board of North East Ohio Network
5121 Mahoning Avenue
Suite 102
Austintown, Ohio 44515-1895

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, 2004 through December 31, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 19, 2005

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NORTH EAST OHIO NETWORK

DECEMBER 31, 2004

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4 - 7
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET December 31, 2004	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE Year ended December 31, 2004	9
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL Year ended December 31, 2004	10
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS December 31, 2004.....	11
NOTES TO THE FINANCIAL STATEMENTS.....	12 - 19
SCHEDULE OF FUNDS ADMINISTERED FOR COUNTY BOARDS Year ended December 31, 2004	20
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	21

BOARD OF NORTH EAST OHIO NETWORK

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the major fund (General) and remaining fund information of North East Ohio Network as of and for the year ended December 31, 2004, which collectively comprise North East Ohio Network's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization'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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining fund information of North East Ohio Network as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the Organization has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of January 1, 2004

Management's discussion and analysis 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2005 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 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on basic financial statements that collectively comprise North East Ohio Network's basic financial statements. The schedule of funds administered for county boards is presented for the purpose of additional analysis and is not a required part of the basic 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.

Cohen & Company

June 14, 2005
Youngstown, Ohio

***Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited***

This discussion and analysis of North East Ohio Network's financial performance provides an overall review of the Organization's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the Organization's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the Organization's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The assets of the Organization exceeded its liabilities at the close of the year ended December 31, 2004, by \$1.9 million (net assets).
- At the end of the current fiscal year, the Organization's governmental fund reported an ending fund balance of \$1.9 million, all of which is available to fund future operations.
- The Organization's total net assets increased by approximately \$350,000, which represents a 22% increase from 2003.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Organization as a financial whole or as an entire operating entity.

The statements provide information about the activities of the whole Organization reconciled with adjusting entries to the Organization's fund financial statements. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending.

Reporting North East Ohio Network as a Whole

While this document contains information about the funds used by the Organization to provide services, the view of the Organization as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The government-wide statements with adjustments reconciling to the fund financial statements can be found on pages 8 – 9 of this report.

***Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited***

Reporting the Organization's Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The Organization, like other state and local government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Organization can be divided into two categories: governmental funds and fiduciary funds. Fund financial reports provide detailed information about the Organization's major fund which is the General fund which encompasses all of the Organization's non-fiduciary activities.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is more than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The statements provide a reconciliation to facilitate a comparison between governmental funds and governmental activities.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Organization's own expenses. The fiduciary fund financial statement 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. The notes to the basic financial statements begin on page 12 of this report.

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets exceeded liabilities by \$1.9 million. These net assets are unrestricted as of December 31, 2004.

Table 1 provides a summary of the Organization's net assets for 2004.

Table 1	
Net Assets	
(In Thousands)	
	Governmental Activities
Assets	
Cash and Investments	\$ 1,753
Other Assets	197
Capital Assets, Net	<u>22</u>
<i>Total Assets</i>	<u>1,972</u>
Liabilities	
Current Liabilities	<u>39</u>
Net Assets	
Invested in Capital Assets	22
Unrestricted	<u>1,911</u>
<i>Total Net Assets</i>	<u>\$ 1,933</u>

In future years, when prior year information is available, a comparative analysis of the government-wide data will be presented.

Table 2 below provides a summary of the changes in net assets for 2004.

Table 2	
Changes in Net Assets	
(In Thousands)	
	Governmental Activities
Revenues	
<i>Revenues</i>	\$ 1,554
Program Expenses	
Health	<u>1,200</u>
<i>Increase in Net Assets</i>	<u>\$ 354</u>

In future years, when prior year information is available, a comparative analysis of the government-wide data will be presented.

Wages and related benefits and taxes accounted for 77% of total expenses.

***Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited***

Revenues from waiver administration and major unusual incident fees account for 80% of total revenues.

Financial Analysis of the Organization's Funds

As noted earlier, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The general fund is the chief operating fund of the Organization. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.9 million. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 161% of the total general fund expenditures.

The fund balance of the Organization's general fund increased by approximately \$360,000 during the current fiscal year. Revenues were down approximately \$386,000 while expenditures were up \$54,000. The decrease in revenues is related to having received cost reimbursements for four years in 2003.

General Fund Budgeting Highlights

The Organization's budget is prepared according to Ohio law and is based on accounting for certain transactions on the same basis as the fund statements (modified accrual). The only budgeted fund is the General Fund.

Capital Assets and Debt Administration

Capital Assets: The Organization's investment in capital assets for its governmental activities as of December 31, 2004, amounts to approximately \$22,000 (net of accumulated depreciation). This investment in capital assets includes software, furniture and equipment.

Note 6 provides capital asset activity during 2004.

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. North East Ohio Network has been organized to provide services on a cost efficient basis to the member county boards of MRDD.

Contacting North East Ohio Network's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Organization's finances and to reflect the Organization's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mr. Thomas Kuchinka, Director of Business Operations, North East Ohio Network, 5121 Mahoning Avenue, Suite 102, Austintown, Ohio 44515-1895

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

DECEMBER 31, 2004

	General Fund	Adjustments (Note 4)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 828,182		\$ 828,182
Investments	925,004		925,004
Deposits and prepaid expenses	29,917		29,917
Accounts receivable from other governments	167,618		167,618
Capital assets, net of accumulated depreciation		\$ 21,620	21,620
Total assets	\$ 1,950,721	21,620	1,972,341
LIABILITIES			
Accrued wages and benefits	\$ 39,013		39,013
Deferred revenues	14,692	(14,692)	
Total liabilities	53,705	(14,692)	39,013
FUND BALANCES / NET ASSETS			
Fund balance - Unreserved	1,897,016	(1,897,016)	
Total liabilities and fund balance	\$ 1,950,721		
Net Assets			
Invested in capital assets		21,620	21,620
Unrestricted		1,911,708	1,911,708
Total net assets		\$ 1,933,328	\$ 1,933,328

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments (Note 4)	Statement of Activities
REVENUES:			
Waiver administration	\$ 960,077		\$ 960,077
Federal financial participation reimbursement	123,029	\$ 10,823	133,852
Family resource program administration fee	101,441	3,869	105,310
Major unusual incidents fee	275,642		275,642
Level one	25,600		25,600
Quality assurance	19,378		19,378
Investment earnings	19,107		19,107
Net increase in fair value of investments	7,091		7,091
Other	7,559		7,559
Total revenues	1,538,924	14,692	1,553,616
EXPENDITURES / EXPENSES:			
Current:			
Health			
Wages	668,358		668,358
Employee benefits	251,199		251,199
Payroll taxes	10,882		10,882
Professional fees	29,145		29,145
Insurance	7,644		7,644
Office expense	28,083		28,083
Rent	82,444		82,444
Software	13,227		13,227
Telephone	16,014		16,014
Postage	13,633		13,633
Travel and meals	38,032		38,032
Seminars and training	5,949		5,949
Depreciation		20,544	20,544
Miscellaneous	14,294	586	14,880
Total expenditures / expenses	1,178,904	21,130	1,200,034
EXCESS OF REVENUES OVER EXPENDITURES	360,020	(360,020)	
CHANGE IN NET ASSETS		353,582	353,582
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	1,536,996	42,750	1,579,746
FUND BALANCE/NET ASSETS - END OF YEAR	\$ 1,897,016	\$ 36,312	\$ 1,933,328

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, 2004

	General Fund		Variance Positive (Negative)
	Original Budget	Actual	
REVENUES:			
Waiver administration	\$ 708,600	\$ 960,077	\$ 251,477
Federal financial participation reimbursement	108,000	123,029	15,029
Family resource program administration fee	132,500	101,441	(31,059)
Major unusual incidents fee	234,931	275,642	40,711
Level one	40,000	25,600	(14,400)
Quality assurance	15,000	19,378	4,378
Investment earnings	10,500	19,107	8,607
Net increase in fair value of investments		7,091	7,091
Other	3,000	7,559	4,559
	<u>1,252,531</u>	<u>1,538,924</u>	<u>286,393</u>
EXPENDITURES:			
Current:			
Health			
Wages	670,712	668,358	2,354
Employee benefits	213,883	251,199	(37,316)
Payroll taxes	40,469	10,882	29,587
Professional fees	25,000	29,145	(4,145)
Insurance		7,644	(7,644)
Office expense	35,000	28,083	6,917
Rent	75,000	82,444	(7,444)
Software	25,000	13,227	11,773
Telephone	25,000	16,014	8,986
Postage		13,633	(13,633)
Travel and meals	35,000	38,032	(3,032)
Seminars and training	15,000	5,949	9,051
Miscellaneous	14,000	14,294	(294)
Capital outlay	23,000		23,000
	<u>1,197,064</u>	<u>1,178,904</u>	<u>18,160</u>
EXCESS OF REVENUES OVER EXPENDITURES	55,467	360,020	304,553
FUND BALANCE - BEGINNING OF YEAR	<u>1,536,996</u>	<u>1,536,996</u>	
FUND BALANCE - END OF YEAR	<u><u>\$ 1,592,463</u></u>	<u><u>\$ 1,897,016</u></u>	<u><u>\$ 304,553</u></u>

The accompanying notes are an integral part of these statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

DECEMBER 31, 2004

ASSETS:

Cash and Investments

\$ 17,830,816

LIABILITIES:

Due to Other Governments

\$ 17,830,816*The accompanying notes are an integral part of these statements.*

NOTES TO THE BASIC 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 Ashtabula, Columbiana, Geauga, Lake, Lorain, Mahoning, Medina, Portage, Stark, Trumbull and Wayne. Cuyahoga and Summit County became members in 2005. 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. All revenues are received from the member boards or from the State of Ohio on their behalf.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization 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 Organization also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Organization's accounting policies are described below.

Basis of Presentation

For financial statement reporting purposes the Organization is considered a single purpose governmental entity. The Organization's basic financial statements consist of fund financial statements presented with adjustments reconciling to government-wide financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the Organization. Fiduciary funds are excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. The financial statements include adjustments with explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

FUND FINANCIAL STATEMENTS

The accounts of the Organization are organized and operated on the basis of funds. 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.

The Organization has the following fund types:

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

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, investment earnings and fees received from other governments are revenue sources that are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accrual basis of accounting. These funds are used to account for assets that the Organization holds for its member county boards.

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.

Capital Assets

Capital assets include furniture, fixtures and equipment owned by the Organization. These assets are reported in the government-wide financial statements. The Organization defines capital assets as assets with an initial, individual cost of \$500 or more. Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value at the dates received.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation is computed using the straight-line method over the useful lives of 5 to 7 years.

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 may be amended periodically by the Board.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Settlements for calendar years through 2002 have been received. No determination has been made by the State of Ohio for 2003 or 2004 adjustments.

Net Assets

Net assets represents 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 borrowing used for the acquisition, construction or improvements 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 Organization or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

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

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For 2004, the Organization has implemented GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements," GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37 "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus", GASB Statement No. 38 "Certain Financial Statement Note Disclosures" and GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences". Statement 37 amends, modifies and clarifies certain provisions of GASB Statement 34. Statement 38 modifies, establishes and rescinds certain financial statement disclosure requirements. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the government's legally adopted budget. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting the Organization's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003 caused by the conversion to the accrual basis of accounting. The Organization has adopted these statements effective January 1, 2004. The effects of the change on the December 31, 2003 fund balances/net assets and retained earnings/net assets are as follows:

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE
(continued)

Fund Balance – December 31, 2003:	\$ 1,536,996
Capital assets, net of accumulated depreciation	<u>42,750</u>
Governmental Activities Net Assets, December 31, 2003	<u>\$ 1,579,746</u>

4. ADJUSTMENTS TO RECONCILE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The financial statements provide adjustments to reconcile from the fund financial statements to the government-wide financial statements. The details of these adjustments are as follows:

Statement of Net Assets and Governmental Fund Balance

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund	<u>\$ 21,620</u>
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Accounts receivable not available to pay for current-period expenditures are deferred in the fund	<u>\$ 14,692</u>
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Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense

Depreciation expense	<u>\$ 20,544</u>
Loss on disposal of capital assets	<u>\$ 586</u>

Revenues in the statement of activities that do not provide current financial resources are not reported in the fund	<u>\$ 14,692</u>
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5. 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).

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CASH, DEPOSITS AND INVESTMENTS (continued)

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.

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>\$ 9,305,090</u>			<u>\$ 9,507,391</u>		
Investments						
Certificates of deposit	\$ 398,019				\$ 398,019	\$ 398,019
Preferred stock	554,723				554,723	554,723
Corporate bonds	74,211				74,211	74,211
Government securities	<u>9,251,959</u>				<u>9,251,959</u>	<u>9,251,959</u>
	<u>\$10,278,912</u>				<u>\$10,278,912</u>	<u>\$10,278,912</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance 01/01/04	Increases	Decreases	Balance 12/31/04
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Office equipment	\$ 128,836		\$ (11,292)	\$ 117,544
Furniture and fixtures	7,541		(2,629)	4,912
<i>Total capital assets being depreciated</i>	<u>136,377</u>		<u>(13,921)</u>	<u>122,456</u>
<i>Less accumulated depreciation for:</i>				
Office equipment	89,058	\$ 19,789	(11,292)	97,555
Furniture and fixtures	4,569	755	(2,043)	3,281
<i>Total accumulated depreciation</i>	<u>93,627</u>	<u>20,544</u>	<u>(13,335)</u>	<u>100,836</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 42,750</u>	<u>\$ (20,544)</u>	<u>\$ (586)</u>	<u>\$ 21,620</u>

Depreciation expense charged to governmental activities totaled \$20,544 for 2004.

7. 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.

Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2004 was 8.50%. The employer contribution rate was 13.55% of covered payroll; 9.55% was the portion used to fund pension obligations for 2004. The Organization's required contributions for pension obligations to PERS for the years ended December 31, 2004, 2003, and 2002 were \$75,370, \$56,713, and \$43,422, respectively. The full amount has been contributed for 2003 and 2002. Ninety one percent has been contributed for 2004.

Other Postemployment Benefits

The Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirants 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 2004, the employer rate was 13.55% of covered payroll; 4% was the portion used to fund health care. The portion of the Organization's 2004 contributions actually used to fund postretirement benefits was \$31,568.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2003 (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). Health care premiums were assumed to increase 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually thereafter.

The number of active contribution participants at December 31, 2003 was 369,885. The net assets available for OPEB at December 31, 2003 (the latest information available) were \$10.5 billion and the actuarial accrued liability, based on the cost method used, was \$26.9 billion, leaving an unfunded actuarial liability of \$16.4 billion.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to rising health care costs.

8. 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.

9. COMMITMENT

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 2004 was \$82,444.

Minimum annual rentals are as follows:

2005	\$	63,000
2006		63,000
2007		<u>57,750</u>
	\$	<u>183,750</u>

SCHEDULE OF FUNDS ADMINISTERED FOR COUNTY BOARDS

YEAR ENDED DECEMBER 31, 2004

	<u>Ashtabula</u>	<u>Columbiana</u>	<u>Geauga</u>	<u>Lake</u>	<u>Lorain</u>	<u>Mahoning</u>	<u>Medina</u>	<u>Portage</u>	<u>Stark</u>	<u>Trumbull</u>	<u>Wayne</u>	<u>Total</u>
Cash and investment balance - January 1, 2004	\$ 715,803	\$ 2,775,953	\$ 2,637	\$ 2,267,979	\$ 974,055	\$ 397,783	\$ 2,564,474	\$ 3,999,016	\$ 787,899	\$ 31,463	\$ 321,696	\$ 14,838,758
Funds received	479,659	309,165	10,445	1,752,972	1,492,638	3,483,247	1,941,153	3,187,067	3,185,358	134,090	1,254,259	17,230,053
Investment earnings	17,012	65,581	46	38,664	16,565	10,001	41,938	57,359	24,244	745	4,595	276,750
Program expenses	(450,901)	(317,369)	(2,500)	(881,681)	(1,217,029)	(3,464,073)	(1,628,400)	(2,154,153)	(3,183,445)	(57,849)	(1,152,040)	(14,509,440)
Bank service charges	<u>(660)</u>	<u>(390)</u>	<u>(300)</u>	<u>(540)</u>	<u>(1,045)</u>	<u>(510)</u>	<u>(180)</u>	<u>(570)</u>	<u>(360)</u>	<u>(450)</u>	<u>(300)</u>	<u>(5,305)</u>
Cash and investment balance - December 31, 2004	<u>\$ 760,913</u>	<u>\$ 2,832,940</u>	<u>\$ 10,328</u>	<u>\$ 3,177,394</u>	<u>\$ 1,265,184</u>	<u>\$ 426,448</u>	<u>\$ 2,918,985</u>	<u>\$ 5,088,719</u>	<u>\$ 813,696</u>	<u>\$ 107,999</u>	<u>\$ 428,210</u>	<u>\$ 17,830,816</u>

Note: Funds held in individual accounts for each county

BOARD OF NORTH EAST OHIO NETWORK

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

We have audited the financial statements of the governmental activities and the major fund and remaining fund information of North East Ohio Network (the Organization) as of and for the year ended December 31, 2004, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated June 14, 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 the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 14, 2005

Compliance and Other Matters

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 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 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 14, 2005
Youngstown, Ohio



**Auditor of State
Betty Montgomery**

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800-282-0370

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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 4, 2005**