

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE YEAR ENDED
DECEMBER 31, 2010***



Dave Yost • Auditor of State

Board of Directors
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, Ohio 43050

We have reviewed the *Independent Auditor's Report* of the Mid East Ohio Regional Council, Knox County, prepared by Dale Saylor and Associates, for the audit period January 1, 2010 through December 31, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 19, 2011

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

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Dale Saylor & Associates

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, OH 43050

We have audited the accompanying financial statements of Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the Mid East Ohio Regional Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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. 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 financial position of Mid East Ohio Regional Council as of December 31, 2010, and the changes in its financial position and cash flows thereof for the 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 June 28, 2011, on our consideration of Mid East Ohio Regional Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

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INDEPENDENT AUDITOR'S REPORT,
Continued

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dale Saylor & Associates

Dublin, Ohio

June 28, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
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 year ended December 31, 2010. 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 the year of 2010 are as follows:

- Net assets increased \$1,403,867, which represents an 8.94% increase from the year ended December 31, 2009.
- The Council's operating revenues totaled \$6,637,135 for the year ended December 31, 2010. Operating expenses amounted to \$5,274,587.

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 2010?" 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 resource 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.

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 12-22 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

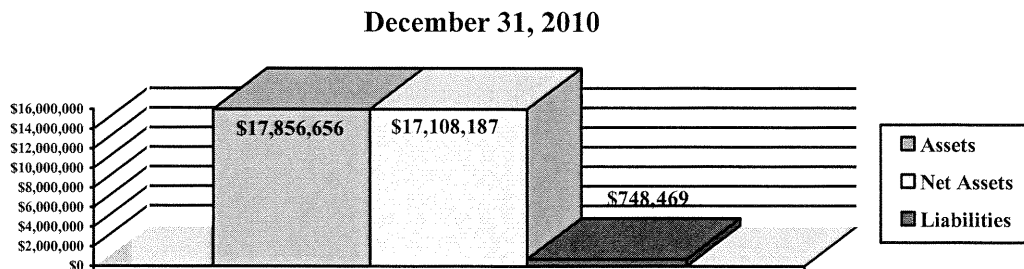
The table below provides a comparative analysis of the Council's net assets for the years ended December 31, 2010 and 2009, respectively.

Net Assets		
	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
<u>Assets</u>		
Current assets	\$ 17,331,710	\$ 15,581,932
Capital assets	<u>524,946</u>	<u>279,771</u>
Total assets	<u>17,856,656</u>	<u>15,861,703</u>
<u>Liabilities</u>		
Current liabilities	<u>748,469</u>	<u>157,383</u>
Total liabilities	<u>748,469</u>	<u>157,383</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	524,946	279,771
Restricted	277,392	277,392
Unrestricted	<u>16,305,849</u>	<u>15,147,157</u>
Total net assets	\$ <u>17,108,187</u>	\$ <u>15,704,320</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the Council's assets exceeded liabilities by \$17,108,187.

A portion of the Council's net assets, \$277,392, represents resources that are subject to external restriction on how they may be used. The Council has \$524,946 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net assets of \$16,305,849 may be used to meet the Council's ongoing activities.

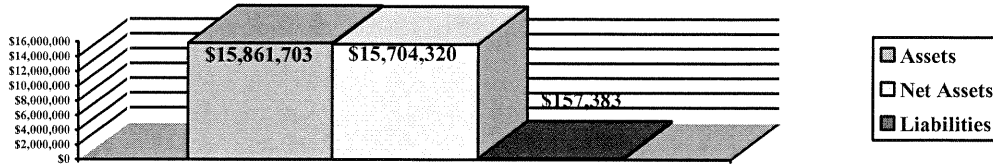
The tables below provide a comparison of the Council's assets, liabilities and net assets for the years ended December 31, 2010 and 2009, respectively.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

December 31, 2009



The table below shows a comparison of the change in net assets for the year ended December 31, 2010 and the six months ended December 31, 2009.

Change in Net Assets

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
<u>Operating Revenues</u>		
Intergovernmental - Intermediate	\$ 2,154,195	\$ 1,086,248
Intergovernmental - State	4,075,022	1,668,173
Intergovernmental - Federal	251,617	106,459
Other local revenues	64,006	41,426
Miscellaneous	92,295	14,509
<u>Nonoperating Revenues</u>		
Earnings on investments	56,510	50,381
Unrealized gain (loss) on investments	<u>(10,943)</u>	<u>(20,910)</u>
Total revenues	\$ <u>6,682,702</u>	\$ <u>2,946,286</u>

Revenues for the period ending December 31, 2010 are for one year, and revenues for the period ending December 31, 2009 are for six months, so the numbers should not be compared without this consideration.

Miscellaneous revenue is largely comprised of reimbursements from supported living providers. This figure is substantially higher for the year ended December 31, 2010 as compared to the six months ended December 31, 2009 due to a \$65,000 repayment from one provider during the year ended December 31, 2010.

Earnings on investments experienced a lower return in 2010, which was primarily caused by the lower interest rates that were the result of poor market conditions during this timeframe.

The Council purchased several investments during fiscal year 2010 that are recorded at fair market value. As a result of decreasing value during the period, the Council recorded an unrealized loss on investments as of December 31, 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

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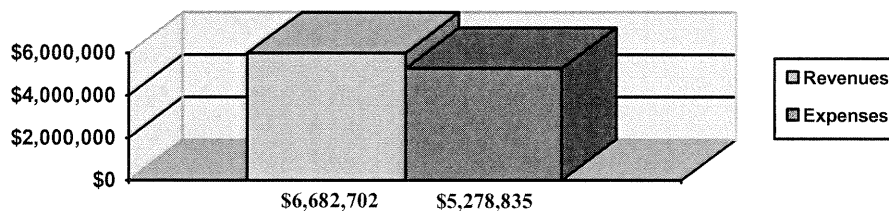
	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
<u>Operating Expenses</u>		
Salaries and benefits	\$ 1,408,019	\$ 731,437
Provider services	598,897	164,638
Rent	150,750	65,042
County expenses	142,590	707
Other supported living	527,905	196,484
Room and board	86,651	52,716
IO Waiver	1,632,700	519,554
Travel and training	139,152	69,271
Professional expense	247,545	97,355
Administrative overhead	220,240	76,310
Equipment	12,723	6,326
Depreciation	7,699	4,784
Program expense administrative overhead	86,262	195,114
State administration	13,454	8,895
 <u>Nonoperating Expenses</u>		
Investment expenses	<u>4,248</u>	<u>3,900</u>
 Total expenses	 <u>5,278,835</u>	 <u>2,192,533</u>
 Changes in net assets	 1,403,867	 753,753
 Net assets beginning of year	 <u>15,704,320</u>	 <u>14,950,567</u>
Net assets end of year	\$ <u>17,108,187</u>	\$ <u>15,704,320</u>

Activities

The Council's net assets increased \$1,403,867. Revenues of \$6,682,702 exceeded expenses of \$5,278,835.

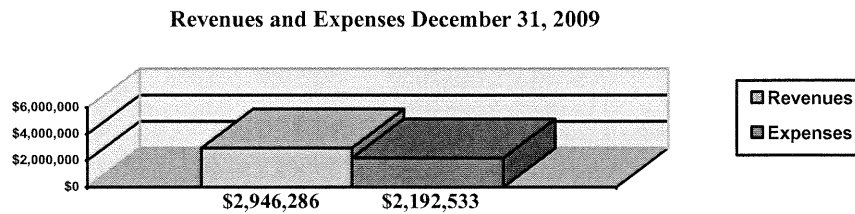
The graphs below compare the Council's activities revenue and expenses for the year ended December 31, 2010 and the six months ended December 31, 2009.

Revenues and Expenses December 31, 2010



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
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

As of December 31, 2010, the Council had \$524,946 invested in capital assets, net of accumulated depreciation. This amount consisted of \$506,046 of net depreciable capital assets and \$18,900 of land, which were reported on the statement of net assets. The following table shows December 31, 2010 balances compared to December 31, 2009:

Capital Assets, Net of Depreciation

	<u>Business-Type Activities</u>	
	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
Building	\$ 465,544	\$ 212,669
Land	18,900	18,900
Furniture and equipment	<u>40,502</u>	<u>48,202</u>
	<u>\$ 524,946</u>	<u>\$ 279,771</u>

The overall increase in capital assets of \$245,175 is due to a capital outlay expense of \$252,875 exceeding depreciation of \$7,700.

The capital outlay expense of \$252,874 consists primarily of renovations to the building that was supposed to begin to serve as the new offices for the Council starting in 2010. Due to a fire just as construction was approximately two weeks before completion, the building is not yet in service. Therefore, the Council has not placed the assets in service and has not begun to depreciate them. This is discussed in more detail in Note 2.

See Note 5 to the basic financial statements for additional information on the Council's capital assets.

Current Financial Related Activities

The Council's budgetary process consists of one central agency-wide budget segmented into four separate departments. This serves to streamline the organizational governance structure and increase the agility of the agency to better meet the needs of member boards. Department budgets are monitored through monthly reports submitted to each responsible Director who uses the data to closely review expenses.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

This year was first year operating with a calendar year financial reporting system. The calendar year approach has served to align the budgeting process of the agency with the member county boards budgeting timelines. This has streamlined the process for feedback needed by the agency and their customer county boards to plan respective budgets.

In 2010, with the review and update of the agency's strategic plan the following goals that align with the agency's Mission, Vision and Values are the foundation for the agency planning and operations: MEORC will increase its diversity of products; MEORC will be a highly efficient and effective quality-driven agency as measured by performance excellence criteria; All stakeholders will value MEORC Services as measured by stakeholder satisfaction surveys and MEORC will increase its diversity of customers.

Throughout 2010, the Council's services to member boards have continued to expand as the result of the agency goals. Some of the new services implemented in 2010 were: investigation reporting systems coordination, information technology specialist, enhanced provider training, Medicaid Service System facilitation and data services. The Council will continue to seek opportunities to improve and enhance the ability to generate additional revenue to offset expenses in the provision of services. The Council continues to seek offsets from available reimbursement vehicles such as Medicaid Administrative Claiming (MAC) despite the admonition that these funds may not be readily available. The Council also benefits from utilizing Targeted Case Management (TCM) funding.

The current fiscal position of the Council is healthy; however, leadership is mindful of the current environment impacting all governmental entities. Regardless of embracing innovative costing methodologies and being customer focused, the Council has been impacted by the recent recession. In 2010, the council continued to analyze operational efficiency for areas of improvement and further reduced the work by one full-time equivalent. The change in the table of organization resulted in over \$35,000 in savings in the 2010 budget. Redeployment of existing staff will result in more efficient operations.

Building Damage

During the late evening hours on March 6, 2010, a fire broke out on the second floor of the Avalon Road office building. Many documents and equipment suffered smoke and water damage, and the Mid East Ohio Regional Council was forced to temporarily relocate first to the offices of the Mt. Vernon Developmental Center and then to their former office on Columbus Road. They will be renting the Columbus Road office temporarily until the building can be repaired. The Mid East Ohio Regional Council hopes to be back in their new facility by the end of 2011. Since the proper value of the building cannot be calculated until the renovation is complete, the Council has left the deferred insurance settlement liability account and the prior building fixed asset value on the books. These will be adjusted in 2011.

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 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, Director of Financial Operations, Mid East Ohio Regional Council, 1 Avalon Road, Mt. Vernon, Ohio 43050. You may call her at (740) 397-4733 ext 102.

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

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Assets:	
Equity in cash and cash equivalents	\$ 6,293,096
Receivables:	
Due from other governments	668,988
Other miscellaneous	82,439
Prepayments	19,388
Investments	10,267,799
Capital assets:	
Depreciable capital assets, net	506,046
Land	<u>18,900</u>
Total assets	\$ <u>17,856,656</u>
Liabilities:	
Accounts payable	\$ 348,138
Deferred insurance settlement	313,666
Accrued payroll and benefits	<u>86,665</u>
Total liabilities	<u>748,469</u>
Net Assets:	
Invested in capital assets, net of related debt	524,946
Restricted for:	
Supported living	277,392
Unrestricted	<u>16,305,849</u>
Total net assets	<u>17,108,187</u>
Total liabilities and net assets	\$ <u>17,856,656</u>

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 YEAR ENDED DECEMBER 31, 2010

Operating Revenues:

Intergovernmental - Intermediate	\$ 2,154,195
Intergovernmental - State	4,075,022
Intergovernmental - Federal	251,617
Other local revenues	64,006
Miscellaneous	<u>92,295</u>
Total revenues	<u>6,637,135</u>

Operating Expenses:

Salaries and benefits	1,408,019
Provider services	598,897
Rent	150,750
County expense	142,590
Other supported living	527,905
Room and board	86,651
IO waiver	1,632,700
Travel and training	139,152
Professional expense	247,545
Administrative overhead	220,240
Equipment	12,722
Depreciation	7,700
Program expense administrative overhead	86,262
State administration	<u>13,454</u>
Total expenses	<u>5,274,587</u>

Operating income	<u>1,362,548</u>
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Nonoperating revenues and (expenses):

Investment earnings	56,510
Unrealized gain (loss) on investments	(10,943)
Investment expenses	<u>(4,248)</u>
Total nonoperating revenues and (expenses)	41,319

Change in net assets	1,403,867
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Net assets at beginning of year	<u>15,704,320</u>
Net assets at end of year	\$ <u>17,108,187</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 YEAR ENDED DECEMBER 31, 2010

Cash flows from operating activities:	
Cash received from operations	\$ 6,045,398
Cash payments for operations	<u>(4,679,219)</u>
Net cash provided by operating activities	<u>1,366,179</u>
Cash flows from investing activities:	
Acquisition of capital assets	(252,874)
Purchase of investments	(9,480,599)
Sale of investments	3,013,376
Investment earnings	56,510
Investment expenses	<u>(4,248)</u>
Net cash used in investing activities	<u>(6,667,835)</u>
Net increase in cash and cash equivalents	(5,301,656)
Cash and cash equivalents at beginning of year	<u>11,594,752</u>
Cash and cash equivalents at end of year	\$ <u>6,293,096</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,362,548
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	7,700
Changes in assets and liabilities:	
Increase in amounts due from other governments	(509,299)
Increase in other miscellaneous receivables	(82,439)
Increase in prepayments	(3,417)
Increase in accounts payable	286,073
Increase in deferred insurance settlement	313,666
Decrease in accrued payroll and benefits	<u>(8,653)</u>
Net cash provided by operating activities	\$ <u>1,366,179</u>

See accompanying notes to the basic financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 1 - DESCRIPTION OF THE COUNCIL

Mid East Ohio Regional Council (the "Council") is a council of governments created under the authority of Chapter 167 of the Ohio Revised Code. Eighteen county Boards of Developmental Disabilities are participants in an agreement that creates and governs the Council. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 operation and administration of services provided by the Council's departments including business, quality, investigative services and administrative overhead.

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

Cash received by the Council is presented as "Equity in cash and cash equivalents" on the statement of net assets.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The Council has invested funds in STAR Ohio. Investments are reported at fair value which is based on quoted market prices. 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 shares price which is the price the investment could be sold for on December 31, 2010.

The Council also has invested funds in Merrill Lynch. These investments consist of Federal Home Loan Bank bonds, Federal Farm Credit Bonds, Morgan Stanley Corporate Bonds, and Federal National Mortgage Association notes and are stated at fair value. Merrill Lynch is registered with the SEC as a broker-dealer and investment advisor.

Interest earned during the year from STAR Ohio and Merrill Lynch was \$56,510.

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 3.

E. Prepayments

Prepayments represent expenses which have been paid but not yet incurred under GAAP. These items are reported as an asset on the statement of net assets.

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 implemented a capitalization threshold of \$5,000 as of January 1, 2008, an increase from \$500 prior to that date. Donated capital assets are recorded at their fair market values as of the date received.

The Council purchased a building and land on May 26, 2009, and expected to move in during 2010. Just as renovations were being completed, a fire broke out in the building. While the building was not completely destroyed, it must be renovated once again. The Council expects to move into the building near the end of 2011, and will begin depreciating it at that time. All other reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

G. Payroll and Related Fringe Benefits

The Council prepares its own payroll, fringe benefits, and OPERS contributions through the use of MyPay Solutions payroll services. However, the Council contracts with the Knox County Board of Developmental Disabilities to provide employee health insurance.

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 of \$277,392 are restricted for supported living.

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. A special item during the year includes a grant from the Ohio Department of Developmental Disabilities grant for deliverables related to a regional collaborative to develop and demonstrate innovations in collaboration to increase administrative and service related efficiencies, including but not limited to intake, assessment and planning, and related areas of technology and information sharing. The Council is serving as the mechanism to accomplish the desired outcomes of this grant agreement. The extraordinary items during the year consisted of receivables and payables related to the building fire described in Note 11.

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.

~continued~

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Council. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Council. All revenues and expenditures not meeting these definitions are reported as nonoperating.

NOTE 3 - 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;

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 3 - 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 items (1) and (2) above 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 December 31, 2010, the carrying amount of the Council’s deposits was \$86,707. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2010, \$86,707 of the Council’s bank balance was covered by the 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.

B. Investments

As of December 31, 2010, the Council had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>3 months or less</u>	<u>Greater than 3 months</u>
Merrill Lynch	\$ 14,652,591	\$ 4,384,792	\$ 10,267,799
STAR Ohio	<u>1,821,597</u>	<u>1,821,597</u>	<u>-</u>
Total investments	16,474,188	6,206,389	10,267,799
FDIC deposits	<u>86,707</u>	<u>86,707</u>	<u>-</u>
Total	\$ <u>16,560,895</u>	\$ <u>6,293,096</u>	\$ <u>10,267,799</u>

~continued~

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS - continued

The weighted average maturity of investments is 427 days. During the current period, the Council invested in Federal Home Loan Bank bonds, Federal Farm Credit Bonds, Morgan Stanley Corporate Bonds, and Federal National Mortgage Association notes which had maturities between 12 months and 24 months. During the year ended December 31, 2010, investments from all sources earned \$56,510 in interest and decreased in value by \$10,943.

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: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Standard & Poor’s has assigned Merrill Lynch an A credit rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency security is exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent, but not in the Council’s name. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

While the value of any investment may lose value, a mechanism is set up to protect the Council from losing its investments in the instance that the counterparty fails. The Securities Investor Protection Corporation will cover up to \$500,000 (including up to \$100,000 for “cash”) in the event that an investment firm collapses. In addition, a portion of the Council’s investments in excess of the SIPC coverage are also insured through an additional insurance plan through the investment broker. Of the \$16,474,188 the Council has invested, \$6,833,622 is insured by the SIPC and \$9,640,566 is covered by additional insurance.

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 December 31, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
Merrill Lynch	\$ 14,652,591	88.94
STAR Ohio	<u>1,821,597</u>	<u>11.06</u>
Total	\$ <u>16,474,188</u>	<u>100.00</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 4 - RECEIVABLES

Receivables at December 31, 2010 consisted of intergovernmental grants and entitlements, as well as funds expected to be received from the insurance company to cover the expenses that were caused by the fire at the Avalon Road property. A summary of the receivables reported on the statement of net assets follows:

Due from other governments	\$ 668,988
Other miscellaneous	<u>82,439</u>
	\$ <u>751,427</u>

All receivables are expected to be collected in subsequent years.

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2010</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 139,108	\$ -	\$ -	\$ 139,108
Building	<u>212,669</u>	<u>252,875</u>	-	<u>465,544</u>
	351,777	252,875	-	604,652
Less: accumulated depreciation	<u>(90,906)</u>	<u>(7,700)</u>	-	<u>(98,606)</u>
	260,871	245,175	-	506,046
Land	<u>18,900</u>	-	-	<u>18,900</u>
Capital assets, net	\$ <u>279,771</u>	\$ <u>245,175</u>	\$ -	\$ <u>524,946</u>

NOTE 6 - 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 the year ended December 31, 2010, 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 \$100,000.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 7 - 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 December 31, 2010.

B. Litigation

The Council is not party to any legal proceeding.

NOTE 8 - PENSION PLANS

Ohio Public Employees 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 system 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.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans discussed above. The 2010 members in state and local classifications contributed 10% of covered payroll entirely to their pension. The Council's contribution rate for 2010 was 14% of covered payroll.

State statute sets a maximum contribution rate for the Council of 14% which includes both pension and retiree health care contributions.

The Council's required contributions for pension obligations to the three plans for the year ended December 31, 2010 was \$90,413; for the six months ended December 31, 2009 it was \$46,610; for the year ended June 30, 2009 it was \$74,208. 100% has been contributed for 2010 and 2009.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System

OPERS provides retirement, disability, survivor and death benefits, as well as post-employment health care coverage, and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attn: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377. Note 8 describes the retirement portion of the OPERS system and this Note describes the other post retirement benefits.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 local government employer units contributed at 14% of covered payroll for both pension and retiree health care benefits. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 9 - POSTRETIREMENT BENEFIT PLAN - continued

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and was 5% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Council's contributions allocated to fund post-employment healthcare benefits for the year ended December 31, 2010 was \$58,503; for the six months ended December 31, 2009 it was \$30,160; for the year ended June 30, 2009 it was \$74,208. 100% has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates for state and local employers increased on January 1 of each year from 2006-2008. These rate increases allowed additional funds to be allocated to the health care plan.

NOTE 10 - CHANGE IN YEAR END

In early 2009 the Council voted to change its year end from June 30 to December 31. This audit is for the year ending December 31, 2010.

NOTE 11 – BUILDING FIRE

During the late evening hours on March 6, 2010, a fire broke out on the second floor of the Avalon Road office building. Many documents and equipment suffered smoke and water damage, and the Mid East Ohio Regional Council was forced to temporarily relocate first to the offices of the Mt. Vernon Developmental Center and then to their former office on Columbus Road. They will be renting the Columbus Road office temporarily until the building can be repaired. The Council anticipates locating back into the Avalon Road building during late 2011. Since the proper value of the building cannot be calculated until the renovation is complete, the Council has left the deferred insurance settlement liability account and the prior building fixed asset value on the books. These will be adjusted in 2011.

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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
1 Avalon Road
Mt. Vernon, OH 43050

We have audited the financial statements of the Mid East Ohio Regional Council as of and for the year ended December 31, 2010, which collectively comprise Mid East Ohio Regional Council's basic financial statements, and have issued our report thereon dated June 28, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mid East Ohio Regional Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid East Ohio Regional Council's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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*,
Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Mid East Ohio Regional Council and is not intended to be and should not be used by anyone other than these specified parties.

Dale Sawyer & Associates

Dublin, Ohio
June 28, 2011



Dave Yost • Auditor of State

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
SEPTEMBER 1, 2011