MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2012

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, 2012 through December 31, 2012. 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.

Dave Yost
Auditor of State

September 6, 2013

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MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO

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5640 Frantz Road
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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INDEPENDENT AUDITOR'S REPORT,
continued

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid East Ohio Regional Council as of December 31, 2012, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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 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.

Other Reporting Required by _Government Auditing Standards_

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, on our consideration of the 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* in considering Mid East Ohio Regional Council's internal control over financial reporting and compliance.

Dale Saylor + Associates

Dublin, Ohio
June 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
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, 2012. 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 2012 are as follows:

- Net assets decreased $3,008,613, which represents a 16.86% decrease from the year ended December 31, 2011.
- The Council's operating revenues totaled $4,806,320 for the year ended December 31, 2012. Operating expenses amounted to $7,828,020.

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 2012?" 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 13-23 of this report.

The table below provides a comparative analysis of the Council's net assets for the years ended December 31, 2012 and 2011, respectively.

Net Assets

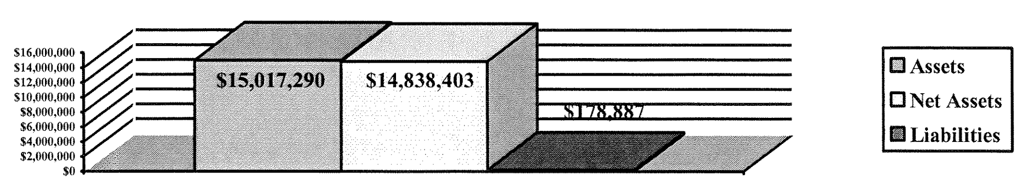
	Dec. 31, 2012	Dec. 31, 2011
Assets		
Current assets	$ 14,375,209	$ 17,519,005
Capital assets	642,081	533,286
Total assets	15,017,290	18,052,291
Liabilities		
Current liabilities	178,887	205,275
Total liabilities	178,887	205,275
Net Assets		
Invested in capital assets, net of related debt	642,081	533,286
Restricted	277,392	277,392
Unrestricted	13,918,930	17,036,338
Total net assets	$ 14,838,403	$ 17,847,016

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2012, the Council's assets exceeded liabilities by $14,838,403.

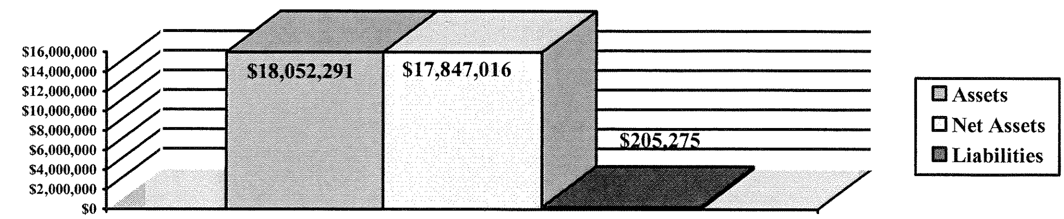
A portion of the Council's net assets, $277,392, represents resources that are subject to external restriction on how they may be used. The Council has $642,081 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net assets of $13,918,930 may be used 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, 2012 and 2011, respectively.

December 31, 2012



December 31, 2011



The table below shows a comparison of the change in net assets for the years ended December 31, 2012 and December 31, 2011.

Change in Net Assets

	Dec. 31, 2012	Dec. 31, 2011
Operating Revenues		
Intergovernmental - Intermediate	$ 3,065,076	$ 2,408,773
Intergovernmental - State	1,250,337	3,298,854
Intergovernmental - Federal	406,774	1,167,865
Other local revenues	63,133	90,625
Miscellaneous	21,000	37,517
Nonoperating Revenues		
Earnings on investments	28,031	89,553
Unrealized gain (loss) on investments	-	(6,401)
Realized gain (loss) on investments	(11,012)	-
Total revenues	$ 4,823,339	$ 7,086,786

Miscellaneous revenue in prior years has been largely comprised of reimbursements from supported living providers. Beginning in 2012, these types of revenues are now combined into the other revenue accounts. Miscellaneous revenue for the year ended December 31, 2012 consists of rental income from leasing a portion of their building to a center for the disabled.

Earnings on investments have dropped in 2012 because the Council has pulled their funds out of investments during the year.

The Council purchased several investments during fiscal year 2011 that are recorded at fair market value. During 2012 the State of Ohio has reevaluated whether government funded agencies should invest their funds. As a precautionary measure, while waiting for the State's decision, the Council has pulled all of its investments out of the market as they have matured during 2012. As a result of decreasing value during the period in some of the accounts, the Council has recorded a realized loss on investments as of December 31, 2012 and an unrealized loss as of December 31, 2011. As of the audit report date, the State of Ohio has determined that some investment options are acceptable and the Council is currently reviewing different investment avenues to determine if one is a good fit for its funds.

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Change in Net Assets, continued

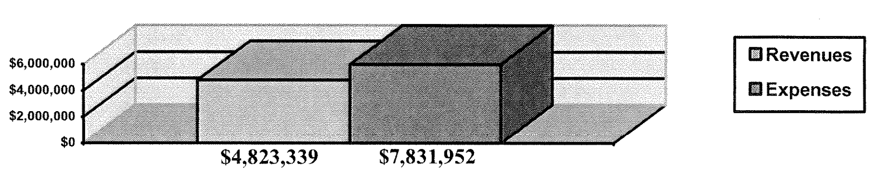
	Dec. 31, 2012	Dec. 31, 2011
Operating Expenses		
Salaries and benefits	$ 1,621,189	$ 1,370,996
Provider services	886,448	556,787
Rent	103,065	171,033
County expenses	-	40,186
Other supported living	795,517	527,278
Room and board	96,649	108,964
IO Waiver	2,747,820	1,724,477
Travel and training	149,616	129,844
Professional expense	278,135	364,934
Administrative overhead	142,131	106,916
Equipment	27,003	50,562
Depreciation	16,038	3,393
Program expense administrative overhead	344,621	173,860
Program administration	451,503	838,958
State administration	168,285	33,306
Nonoperating Expenses		
Investment expenses	3,932	4,560
Return of equity to County	-	141,903
Total expenses	7,831,952	6,347,957
Changes in net assets	(3,008,613)	738,829
Net assets beginning of year	17,847,016	17,108,187
Net assets end of year	$ 14,838,403	$ 17,847,016

Activities

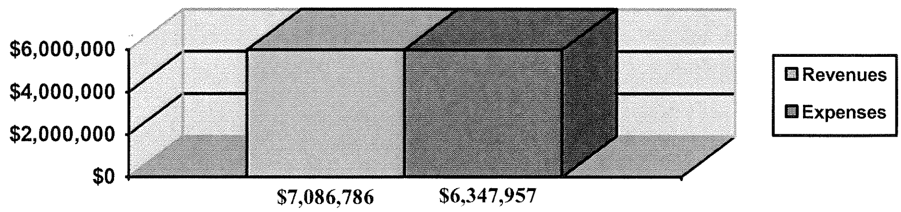
The Council's net assets decreased $3,008,613. Expenses of $7,831,952 exceeded revenues of $4,823,339.

The graphs below compare the Council's activities revenue and expenses for the years ended December 31, 2012 and December 31, 2011.

Revenues and Expenses December 31, 2012



Revenues and Expenses December 31, 2011



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, 2012, the Council had $642,081 invested in capital assets, net of accumulated depreciation. This amount consisted of $620,221 of net depreciable capital assets and $21,860 of land, which were reported on the statement of net assets. The following table shows December 31, 2012 balances compared to December 31, 2011:

Capital Assets, Net of Depreciation

	Business-Type Activities	
	Dec. 31, 2012	Dec. 31, 2011
Building	$ 488,562	$ 501,116
Building improvements	113,550	1,080
Land	21,860	18,900
Furniture and equipment	18,109	12,190
	$ 642,081	$ 533,286

The overall increase in capital assets of $108,795 is due to a capital outlay expense of $124,833 exceeding depreciation of $16,038.

The capital outlay expense of $134,832 consists primarily of renovations to the building. Due to a fire during renovations in 2010, the building was not placed in service until late 2011. The final renovations have been completed in 2012. This is discussed in more detail in Note 2. The Council has also purchased a small tract of land in 2012 that will be used for additional parking.

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 continues to consist of a central agency-wide budget segmented with four departments. Department budgets are monitored through monthly reports to each responsible Director who uses the data to closely review expenses. The MEORC Board also receives reports of the budget to actual status.

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MEORC continued to operate with the strategic objections from the previous year. Beginning in summer 2012, the MEORC board began working to review their strategic direction for the future of MEORC. The decision was made to refocus, repurpose, and retool based on the following, strategic transition to four MEORC Centers of Innovation as a vehicle for a regional approach to collaboration: 1) Person Centered Transformation, 2) Regional Shared Services Innovation, 3) Provider Network Development and Support, and 4) Quality Assurance/Monitoring and Improvement.

Late in 2012, the Council and their Board of Directors affirmed several changes and new shared services initiatives. First, the Centers of Excellence that support and align person-centered practices/philosophies transformations that have been developed in Region V in relation to the 'imagine' collaboration with the Ohio Department of Developmental Disabilities (DODD). Second, MEORC was awarded a grant through the Local Government Innovation Fund (LGIF) to perform a return on investment (ROI) study related to furthered shared services and 'imagine' implementation. Third, new specialized services were implemented: 1) related to the Transitions for Developmental Disabilities (TDD) waiver that was previously administered by ODJFS was transferred to DODD and local county boards. The council expanded service delivery to focus on this specialized area for twelve of the counties in Region V and 2) the council implemented clinical nursing services in Region V. Finally, the decision was made to end the long standing positive arrangement with the Knox County Commissioners for the Council's purchase of healthcare insurance coverage effective January 2013.

The current fiscal position of the Council is healthy; however, being mindful of the current environment impacting all governmental entities, the Council and their Board of Directors are committed to the strategic planning that was initiated in the summer of 2012 through the development of a Strategic Implementation Committee. This Committee includes MEORC management and staff designated by the Executive Director, County Superintendents and HHSC, LLC Consultants. The Committee purposes include: overseeing day-to-day implementation of the strategic plan and shared services opportunities, integrating strategic connections, pursuing strategic positions, learning about integrated care models, exploring and proposing next step strategies, ensuring cost effective use of experts, being accountable for agility, reviewing results and receive recommendations of 'imagine' Center of Excellence Level changes, coordinating 'imagine' implementation to ensure alignment with strategic plan and efficiencies, and guiding the share services ROI project and LGIF report. The future direction for the Council also includes the need to balance the budget in 2014 as current practice has included assessing the collective fund to support product costs to the member boards.

In mid-2011, an informal opinion from the Ohio Attorney General questioned the approach of Councils of Governments holding and investing member funds. At that time, the decision was made by the Council and members to suspend reinvesting any maturing investment instruments until a formal opinion was available. In mid-2012, the formal opinion from the Attorney General provided affirmation of the Council's authority to hold and investment funds. As a result of this situation, the interest income for 2011 and 2012 is substantially lower than previous years.

House Bill 487 language included a change to ORC 5126.13 that prohibits, the long standing practice of, DODD sending payments directly to COGs on a county's behalf. The legislation was effective July 1, 2012. As such, DODD began sending all subsidies directly to the county board starting with the 1st quarter of FY13. This change results in a decrease of receipts on the Council's financial statements for meeting member county board financial commitments. Member boards have the option of sending the funding to the Council, for purposes of paying county board residential obligations, or utilizing their existing fund balances held at the Council to meet these obligations.

Building Damage

In late September 2011, fire damages that occurred in early March 2010 were fully repaired on the building located at 1 Avalon Road. Content, relocation and loss of business expenses and insurance claims were settled in early 2012.

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, 2012

Assets:		
Equity in cash and cash equivalents	$	13,969,461
Receivables:		
Due from other governments		104,936
Other miscellaneous		240,322
Prepayments		60,490
Capital assets:		
Depreciable capital assets, net		620,221
Land		21,860
Total assets	$	15,017,290

Liabilities:		
Accounts payable	$	139,940
Accrued payroll and benefits		38,947
Total liabilities		178,887
Net Assets:		
Invested in capital assets, net of related debt		642,081
Restricted for:		
Supported living		277,392
Unrestricted		13,918,930
Total net assets		14,838,403
Total liabilities and net assets	$	15,017,290

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, 2012

Operating Revenues:		
Intergovernmental - Intermediate	$	3,065,076
Intergovernmental - State		1,250,337
Intergovernmental - Federal		406,774
Other local revenues		63,133
Miscellaneous		21,000
Total revenues		4,806,320
Operating Expenses:		
Salaries and benefits		1,621,189
Provider services		886,448
Rent		103,065
Other supported living		795,517
Room and board		96,649
IO waiver		2,747,820
Travel and training		149,616
Professional expense		278,135
Administrative overhead		142,131
Equipment		27,003
Depreciation		16,038
Program expense administrative overhead		344,621
Program administration		451,503
State administration		168,285
Total expenses		7,828,020
Operating income		(3,021,700)
Nonoperating revenues and (expenses):		
Investment earnings		28,031
Investment expenses		(3,932)
Realized gain (loss) on investments		(11,012)
Total nonoperating revenues and (expenses)		13,087
Change in net assets		(3,008,613)
Net assets at beginning of year		17,847,016
Net assets at end of year	$	14,838,403

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, 2012

Cash flows from operating activities:	
Cash received from operations	$ 4,776,884
Cash payments for operations	(7,889,322)
Net cash provided by operating activities	(3,112,438)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	124,833
Net cash provided by capital and related financing activities	124,833
Cash flows from investing activities:	
Sale of investments	5,708,996
Investment earnings	28,031
Investment expenses	(3,932)
Realized loss on investments	(11,012)
Net cash provided by investing activities	5,722,083
Net increase in cash and cash equivalents	2,734,478
Cash and cash equivalents at beginning of year	11,234,983
Cash and cash equivalents at end of year	$ 13,969,461

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ (3,021,700)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	16,038
Changes in assets and liabilities:	
Decrease in amounts due from other governments	99,157
Increase in other miscellaneous receivables	(128,593)
Increase in prepayments	(50,952)
Decrease in accounts payable	(25,555)
Decrease in accrued payroll and benefits	(833)
Net cash provided by operating activities	$ (3,112,438)

See accompanying notes to the basic financial statements.

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) Accounting Standards Codification (ASC), provided it does not conflict with or contradict GASB pronouncements. 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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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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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, 2012.

The Council also has invested funds in Merrill Lynch. These investments consist of Federal Home Loan Bank bonds and Federal Farm Credit Bonds, 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 $28,031. The Council is not holding any investments as of December 31, 2012.

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 had to be renovated once again. The Council moved into the building on October 1, 2011. The final renovations were completed in early 2012. Depreciation is computed using the straight-line method over the following useful lives:

Depreciation	Estimated Lives
Furniture/equipment	7 years
Building and improvements	40 years

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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. This health insurance arrangement ends in January 2013 and the Council will administer its own plan.

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. The Council had no extraordinary or special items for the year ended December 31, 2012.

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.

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;

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;

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NOTE 3 - DEPOSITS AND INVESTMENTS – continued

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, 2012, the carrying amount of the Council's deposits was $94,240. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, $92,238 of the Council's bank balance was covered by the Federal Deposit Insurance Corporation and $2,002 was covered by the National Credit Union Share Insurance Fund.

B. Investments

As of December 31, 2012, the Council had the following investments and maturities:

		Investment Maturities	
Investment type	Fair Value	3 months or less	Greater than 3 months
Merrill Lynch	$ 13,874,733	$ 13,874,733	$ -
STAR Ohio	488	488	-
Total investments	13,875,221	13,875,221	-
NCUSIF deposits	2,002	2,002	-
FDIC deposits	92,238	92,238	-
Total	$ 13,969,461	$ 13,969,461	$ -

During the current period, the Council invested in Federal Home Loan Bank bonds and Federal Farm Credit Bonds which had maturities of 11 months. During the year ended December 31, 2012, investments from all sources earned $28,031 in interest and decreased in value by $11,012. As of December 31, 2012, the Council is not holding any bond funds. All funds have been moved to cash accounts due to the State of Ohio's discussions regarding whether governmental entities should have investments. The State has decided some investments are acceptable so the Council is again reviewing investment options.

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NOTE 3 - DEPOSITS AND INVESTMENTS - continued

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 $13,875,221 the Council has invested, $5,380,850 is insured by the SIPC and $8,494,371 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, 2012:

Investment Type	Fair Value	% of Total
Merrill Lynch	$ 13,874,733	99.996
STAR Ohio	488	0.004
Total	$ 13,875,221	100.000

NOTE 4 - RECEIVABLES

Receivables at December 31, 2012 consisted of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net assets follows:

Due from other governments	$ 104,936
Other miscellaneous	240,322
	$ 345,258

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:

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Capital assets being depreciated:				
Furniture and equipment	$ 21,141	$ 9,258	$ -	$ 30,399
Building	502,162	-	-	502,162
Building improvements	1,082	112,615	-	113,697
	524,385	121,873	-	646,258
Less: accumulated depreciation	(9,999)	(16,038)	-	(26,037)
	514,386	105,835		620,221
Land	18,900	2,960	-	21,860
Capital assets, net	$ 533,286	$ 108,795	$ -	$ 642,081

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, 2012, 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 $300,000.

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, 2012.

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 2012, member and employer contribution rates were consistent across all three plans discussed above. The 2012 members in state and local classifications contributed 10% of covered payroll entirely to their pension. The Council's contribution rate for 2012 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, 2012 was $117,981; for the year ended December 31, 2011 it was $105,916. 100% has been contributed for 2012 and 2011.

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System

OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2012, local government employer units contributed at 14% of covered payroll for both pension and retiree health care benefits, of which 10% goes to pension and 4% goes to 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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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 4.0% from January 1, 2012 to December 31, 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% from January 1 through December 31, 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent of both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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, 2012 was $47,193; for the year ended December 31, 2011 it was $42,562. 100% has been contributed for 2012 and 2011.

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 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 rented the Columbus Road office temporarily until the building was repaired. The Council moved back into the Avalon Road building on October 1, 2011. The majority of the fixed asset acquisitions during 2012 were due to the repairs from this fire. All repairs and insurance settlements have been completed during 2012.

NOTE 12 - SUBSEQUENT EVENTS

Mid East Ohio Regional Council has performed an evaluation of subsequent events through June 26, 2013, the date this report was issued, and concluded that there were no subsequent events which warranted disclosure herein.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 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, the financial statements of Mid East Ohio Regional Council as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements, and have issued our report thereon dated June 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mid East Ohio Regional Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Mid East Ohio Regional Council's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dale Taylor + Associates

Dublin, Ohio
June 26, 2013

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 19, 2013