



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

West Central Ohio Network
Shelby County
1900 Progress Way, Suite 1
P.O. Box 379
Sidney, Ohio 45365

To the Executive Committee:

We have audited the accompanying general-purpose financial statements of the West Central Ohio Network, Shelby County, ("WestCON") as of and for the years ended December 31, 2001 and 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of WestCON's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the West Central Ohio Network, Shelby County, as of December 31, 2001 and 2000, and for the years 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 July 31, 2002, on our consideration of WestCON's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 31, 2002

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**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-Term Debt	
Assets:					
Equity in Pooled Cash and Investments	\$415,151	\$2,687,032			\$3,102,183
Receivables:					
Accrued Interest	12,361				12,361
Accounts Receivable	4,142				4,142
Prepaid Expenses	7,430				7,430
Fixed Assets			\$50,569		50,569
Amount to be Provided for Retirement of General Long-Term Debt				\$12,574	12,574
Total Assets	439,084	2,687,032	50,569	12,574	3,189,259
Liabilities:					
Accounts Payable	1,162	253,478			254,640
Accrued Wages & Benefits	17,089				17,089
Compensated Absences Payable	171			12,574	12,745
Total Liabilities	18,422	253,478		12,574	284,474
Equity:					
Investment In General Fixed Assets			50,569		50,569
Fund Balance:					
Unreserved	420,662	2,433,554			2,854,216
Total Fund Equity and Other Credits	420,662	2,433,554	50,569		2,904,785
Total Liabilities, Fund Equity, and Other Credits	\$439,084	\$2,687,032	\$50,569	\$12,574	\$3,189,259

The notes to the general purpose financial statements are an integral part of this statement.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental - Federal	\$22,814		\$22,814
Intergovernmental - State		\$1,826,620	1,826,620
Intergovernmental - Local		1,308,714	1,308,714
Intergovernmental - Housing Grant		240,128	240,128
Interest Income	164,345		164,345
Administration Fees	215,241		215,241
Donations		459	459
Increase in Fair Value of Investments	19,169	117,754	136,923
Miscellaneous Revenue	5,226	55,955	61,181
	<u>426,795</u>	<u>3,549,630</u>	<u>3,976,425</u>
Total Revenues			
Expenditures:			
Supported Living:			
Administrative Fee		123,641	123,641
Wavier Administrative Fees		37,000	37,000
Contractual Service		2,261,220	2,261,220
Other Expenses		344,795	344,795
Family Resource:			
Contractual Service		403,508	403,508
Other Expenses		1,818	1,818
Residential Facility Wavier:			
Administrative Fee		54,600	54,600
Contractual Service		113,464	113,464
Other Expenses		12,876	12,876
Administrative Expenses	457,939		457,939
Capital Outlay	7,965		7,965
	<u>465,904</u>	<u>3,352,922</u>	<u>3,818,826</u>
Total Expenditures			
Excess of Revenues Over/(Under) Expenditures	(39,109)	196,708	157,599
Fund Balances, January 1	459,771	2,236,846	2,696,617
Fund Balances, December 31	<u><u>\$420,662</u></u>	<u><u>\$2,433,554</u></u>	<u><u>\$2,854,216</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
Assets:					
Equity in Pooled Cash and Investments	\$437,792	\$2,400,648			\$2,838,440
Receivables:					
Accrued Interest	28,918				28,918
Accounts Receivable	7,587				7,587
Prepaid Expenses	2,000				2,000
Fixed Assets			\$43,210		43,210
Amount to be Provided for Retirement of General Long-Term Debt				\$9,250	9,250
Total Assets	476,297	2,400,648	43,210	9,250	2,929,405
Liabilities:					
Accounts Payable	5,652	163,802			169,454
Accrued Wages and Benefits	10,874				10,874
Compensated Absences Payable				9,250	9,250
Total Liabilities	16,526	163,802		9,250	189,578
Equity:					
Investment In General Fixed Assets			43,210		43,210
Fund Balance:					
Unreserved	459,771	2,236,846			2,696,617
Total Fund Equity and Other Credits	459,771	2,236,846	43,210		2,739,827
Total Liabilities, Fund Equity, and Other Credits	\$476,297	\$2,400,648	\$43,210	\$9,250	\$2,929,405

The notes to the general purpose financial statements are an integral part of this statement.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental - Federal	\$27,069		\$27,069
Intergovernmental - State		\$1,424,753	1,424,753
Intergovernmental - Local	7,591	1,248,619	1,256,210
Intergovernmental - Housing Grant		40,000	40,000
Interest Income	182,386		182,386
Administration Fees	256,895		256,895
Donations		16,568	16,568
Increase in Fair Value of Investments	15,198	79,787	94,985
Miscellaneous Revenue	19,568	18,693	38,261
	<u>508,707</u>	<u>2,828,420</u>	<u>3,337,127</u>
Total Revenues			
Expenditures:			
Supported Living:			
Administrative Fee		195,395	195,395
Wavier Administrative Fees		6,901	6,901
Contractual Service		1,746,630	1,746,630
Other Expenses		87,897	87,897
Family Resource:			
Contractual Service		272,658	272,658
Other Expenses		1,112	1,112
Residential Facility Wavier:			
Administrative Fee		54,600	54,600
Contractual Service		152,727	152,727
Other Expenses		10,891	10,891
Administrative Expenses	421,217		421,217
Capital Outlay	3,307		3,307
	<u>424,524</u>	<u>2,528,811</u>	<u>2,953,335</u>
Total Expenditures			
Excess of Revenues Over Expenditures	84,183	299,609	383,792
Fund Balances, January 1	<u>375,588</u>	<u>1,937,237</u>	<u>2,312,825</u>
Fund Balances, December 31	<u>\$459,771</u>	<u>\$2,236,846</u>	<u>\$2,696,617</u>

The notes to the general purpose financial statements are an integral part of this statement.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

1. REPORTING ENTITY

A. Reporting Entity

West Central Ohio Network, Shelby County, (WestCON), is a non-profit governmental agency known as a Regional Council of Governments. WestCON was created by seven county boards of mental retardation and developmental disabilities in September of 1990 to administer supported living services to the counties of Auglaize, Darke, Logan, Mercer, Miami, Shelby, and Union. Hardin County became a member in 2001. WestCON is governed by an executive committee of eight members that are the Superintendents of each local county board of mental retardation and developmental disabilities which is a WestCON member. At the organizational meeting of each year, which shall be held in January, the members shall elect officers of the executive committee. The officers of the committee shall be a President, Vice-President, Secretary, and Treasurer. There shall be no term limitations for WestCON committee members. The executive committee authorizes expenditures as well as serving as the contracting body and the chief administrators of public services for WestCON. The committee appoints an Executive Director of WestCON that is responsible for organizing, administering, and operating WestCON in accordance with the committee's established program.

Supported Living is a program that assists persons with mental retardation or developmental disabilities (MR/DD) to live in the home of their choice with the supports that they need. WestCON seeks neighbors, persons in the community, and friends, to provide assistance. When a volunteer cannot be located, the individual chooses a certified provider who is paid to provide identified supports. The goal is to link the individual to persons in the community who will become long-term non-paid supports.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of West Central Ohio Network have been prepared in conformity with generally accepted accounting principles (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 more significant of WestCON's accounting policies are described below.

A. Basis of Presentation – Fund Accounting

West Central Ohio Network uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of WestCON are grouped into the following fund types under the broad fund category governmental.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Fund Types

Government funds are those through which all governmental functions of WestCON are financed. The acquisition, use and balances of WestCON's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are WestCON's governmental fund types:

General Fund - This fund is used to account for all financial resources of WestCON except those required to be accounted for in another fund. The general fund balance is available to WestCON for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. WestCON has the following significant special revenue funds:

Supported Living - These funds are used for supported living services which assist persons with MR/DD to live in the home of their choice with the support required.

Family Resource Service – These funds are used to provide respite services to families which qualify for the support.

Residential Facility Waiver – These funds are used to assist persons with MR/DD for services related to a home residence.

2. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government the following account group is used:

General Fixed Assets Account Group (GFAAG) - The general fixed asset account group is used to account for all fixed assets of WestCON.

General Long-Term Debt Account Group (GLTDAG) – The general long-term debt account group is used to account for all long-term obligations of WestCON.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The available period for WestCON is sixty days after year end.

Non-exchange transactions, in which WestCON receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted and expenditure requirements, in which the resources are provided to WestCON on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: federal, state, and local revenue, and earnings on investments.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

C. Cash and Cash Equivalents

To improve cash management, all cash received by WestCON is deposited into one of three bank accounts. All monies received for supported living, residential facility waiver, and administrative purposes are deposited into the main account. Monies received for Family Resource Services are deposited into a separate account. Transfers are made monthly to a payroll account to cover payroll expenditures. For purposes of presentation on the combined balance sheet, all investments with an original maturity of three months or less at the time they are purchased by WestCON are considered to be cash equivalents.

Monies in the main account are used to purchase all investments. Investment earnings are allocated to the General Fund.

D. Payables

WestCON payables are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also, by a reasonable, systematic method of determining their existence, completeness and valuation.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, or December 31, 2000, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and the expenditure is reported in the year in which services are consumed.

F. Fixed Assets

General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in the governmental funds, and related assets are reported in the general fixed assets account group. Interest incurred during the construction of fixed assets is not capitalized. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

G. Compensated Absences

WestCON follows the provisions of Government Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that WestCON will compensate employees for the benefits through time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that WestCON as identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits specified in WestCON's termination policy.

WestCON records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

H. Accrued Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. Payments made more than sixty days after year end are considered not to have been paid using current available financial resource.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, federal, state, and local, are recorded as receivables and revenues when measurable and available.

J. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGE IN ACCOUNTING PRINCIPLE

For 2001, WestCON has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions".

4. RESTATEMENT DUE TO PRIOR PERIOD ADJUSTMENT

The fund balances of the General Fund and Special Revenue Funds have been restated. This restatement is due to the incorrect allocation in the reporting of the fair value of investments. The General fund was restated at January 1, 2000, from \$409,232 to \$375,588, and the Special Revenue Fund was restated from \$1,903,593 to \$1,937,237.

5. DEPOSITS AND INVESTMENTS

Monies held by WestCON are classified into three categories. Active monies means an amount of public monies determined to be necessary to meet current demand upon the WestCON treasury.

Active monies must be maintained either as cash in the WestCON treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, certificates of deposit, or in money market deposit accounts.

Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. The investment agency may either deposit or invest the authorized interim monies, provided that the investments will mature or are redeemable within one to three years from the settlement date.

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

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

- a. United States treasury notes, bonds, or other obligations of or guaranteed by the United States treasury, or those for which the faith of the United States is pledged for payment of principal thereof and interest thereon.
- b. Bonds, notes, debenture, or any other obligations or security issued by any federal government agency or instrumentality.
- c. Interim deposits in eligible institutions.
- d. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations. Such mutual funds must be registered as investment companies per Investment Company Act of 1940 and have the highest letter or numerical rating provided by at least one nationally recognized standard rating service.
- e. Investment grade cumulative preferred stocks and investment grade corporate bonds can be purchased to a maximum of up to 30% of the total investment account asset value.

Inactive deposits are public deposits that WestCON has identified as expected to be needed for use within the current three year period of designation of depositories. The investments will mature or be redeemable within three to five years from the settlement date.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: As of December 31, 2001, the carrying amount of the WestCON's deposits was \$2,356,427 and the depository balance was \$2,485,059.

As of December 31, 2000, the carrying amount of the WestCON's deposits was \$2,228,435 and the depository balance was \$2,352,921.

The certificates of deposit were covered by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The certificate of deposit in excess of \$100,000 and the cash/money funds were covered as securities by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer, but not against a change in market value of the securities in customer accounts at the broker-dealer. SIPC was created by the Securities Investor Protection Act of 1970 and is neither a government agency or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer a maximum of \$500,000, including up to \$100,000 on claims for cash (as distinct from claims for securities). Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Investments: WestCON's investments are categorized below to give an indication of the level of risk assumed by WestCON at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by WestCON or its agent in WestCON's name. Category 2 includes uninsured and unregistered investments which are held by the counterparts trust department or agent in WestCON's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in WestCON's name.

2001	<u>Category 1</u>	<u>Carrying Value</u>	<u>Market Value</u>
Corporate Preferred Stocks	<u>\$745,756</u>	<u>\$745,756</u>	<u>\$745,756</u>
2000	<u>Category 1</u>	<u>Carrying Value</u>	<u>Market Value</u>
Corporate Preferred Stocks	\$560,006	\$560,006	\$560,006
U.S. Treasury Notes	<u>49,999</u>	<u>49,999</u>	<u>49,999</u>
Total	<u>\$610,005</u>	<u>\$610,005</u>	<u>\$610,005</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statements No. 3 is as follows:

2001	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB 9 Statement	\$3,102,183	
Investments:		
Corporate Preferred Stock	<u>(745,756)</u>	<u>\$745,756</u>
GASB 3 Statement	<u>\$2,356,427</u>	<u>\$745,756</u>

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

2000	Cash and Cash Equivalents	Investments
GASB 9 Statement	\$2,838,440	
Investments:		
Corporate Preferred Stock	(560,006)	\$560,006
U.S. Treasury Notes	(49,999)	49,999
GASB 3 Statement	<u>\$2,228,435</u>	<u>\$610,005</u>

6. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance at December 31, 2000	Additions	Deletions	Balance at December 31, 2001
Machinery and Equipment	\$43,210	\$7,359	\$0	\$50,569

A summary of the changes in general fixed assets during fiscal year 2000 follows:

	Balance at December 31, 1999	Additions	Deletions	Balance at December 31, 2000
Machinery and Equipment	\$39,904	\$3,306	\$0	\$43,210

7. OPERATING LEASE

WestCON has entered into an agreement to lease office space for \$2,000 a month. The lease expires March 1, 2003.

8. RISK MANAGEMENT

WestCON maintains general liability coverage in the amount of \$2,000,000 for each occurrence and \$5,000,000 in aggregate.

Workers' compensation benefits are provided through the State Bureau of Worker's Compensation. The premium is calculated based upon accident history and administrative costs.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

8. RISK MANAGEMENT (Continued)

WestCON provides health insurance for all full-time employees. WestCON provides health insurance benefits through a private carrier, United Health Care of Ohio. WestCON pays eighty percent of the total coverage per month per employee.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims, resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

9. DEFINED BENEFIT PENSION PLANS

Public Employees Retirement System

All WestCON employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For 2000 PERS instituted a temporary employer rate rollback for local governments, WestCON's contribution rates for 2001 and 2000, were 13.55 percent and 10.84 percent respectively. Contributions are authorized by State statute. The contribution rates are determined actuarially. WestCON's required contributions for PERS for the years ended December 31, 2001, 2000, and 1999 were \$30,833, \$31,700 and \$38,412, respectively. The full amount has been contributed for 2000 and 1999. 90 percent has been contributed for fiscal year 2001 with the remainder being reported as a liability.

10. POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. WestCON's required contributions for PERS for the years 2001 and 2000, were 13.55 percent and 10.84 percent respectively of participants' gross salaries; 4.30 percent was the portion that was used to fund health care for the years 2001 and 2000.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

For 2001 and 2000, benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based upon PERS's latest actuarial review as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

For 2001 and 2000, all investments are carried at market. For actuarial purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

For 2001, the number of active contributing participants was 411,076. WestCON's actual contributions which were used to fund postemployment benefits were \$1,326. The actual contribution and the actuarially required contribution are the same. PERS's net assets available for payment of benefits at December 31, 2000 (the latest information available) were \$11.735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.60 million and \$2,628.7 million respectively.

For 2000, the number of active contributing participants was 401,339. WestCON's actual contributions which were used to fund postemployment benefits were \$1,363. The actual contribution and the actuarially required contribution are the same. PERS's net assets available for payment of benefits at December 31, 1999 (the latest information available) were \$10.805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million respectively.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

West Central Ohio Network
Shelby County
1900 Progress Way, Suite 1
P.O. Box 379
Sidney, Ohio 45365

To the Executive Committee:

We have audited the financial statements of the West Central Ohio Network, Shelby County, ("WestCON") as of and for the years ended December 31, 2001, and 2000, and have issued our report thereon dated July 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether WestCON's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of WestCON in a separate letter dated July 31, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the WestCON's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect WestCON's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-60275-001 and 2001-60275-002.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe items 2001-60275-001 and 2001-60275-002 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of WestCON in a separate letter dated July 31, 2002.

This report is intended for the information and use of the management and Executive Committee, and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

July 31, 2002

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-60275-001

Material Weakness:

Fund Balances

West Central Ohio Network maintains a general fund and special revenue funds for Supporting Living, Family Resource Services, Residential Facility Waiver, and Emergency Funds. It is WestCON's responsibility to track the receipts, expenditures, and fund balances of the funds for each member county of WestCON. During the audit period the fund balances reported for the member counties were not accurately maintained. The beginning fund balances for the general fund and each of the Special Revenue funds did not agree to the ending fund balances from the prior audit. This resulted in significant corrections to the general fund and the County's Supporting Living, Family Resource Service, and Residential Facility Waiver Special Revenue Funds ending fund balances for 2000 and 2001.

The financial statements filed by WestCON also included understatements to the amounts presented as Cash and Cash Equivalents in 2001 and 2000, of \$363,380 and \$208,921, respectively. This was caused by the accounting entries made to record the Increase/Decrease in Fair Market Value of Investments were not made correctly to reverse the prior year accrual. The accumulating effect of this error resulted in an understatement of the general and special revenue Cash and Cash Equivalents and Fund Balance. The financial statements in this report have been adjusted to state general and special revenue fund Cash and Cash Equivalents and Fund Balances correctly.

Failure to correctly maintain accurate fund balances for the general fund and each special revenue fund of the member counties is a significant weakness in the financial reporting process. These errors could result in the member counties having deficit funds in their special revenue accounts. Currently, the Business Manager does not reconcile the bank accounts to the total of the individual fund balances. In order to provide assurance that the WestCON fund balances are maintained accurately, the Business Manager should be performing a monthly bank reconciliation to each fund. The Executive Committee should review the reconciliations each month and initial the reconcilements to indicate this review has been performed to their satisfaction.

FINDING NUMBER 2001-60275-002

SAS 70 Report

West Central Ohio Network (WestCON) has an investment portfolio with Merrill Lynch. WestCON has delegated decisions regarding investment purchases and sales to Merrill Lynch which classifies Merrill Lynch a service organization for WestCON. Statement of Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. A service organization is to have an annual SAS 70/88 report completed which documents controls at the service organization. Merrill Lynch was unable to provide the required SAS 70/88 audit of their controls for 2001 or 2000.

WestCON should require Merrill Lynch to submit to an annual SAS 70/88 audit, require that all investment decisions are made by the Board, or place their investments with an organization which annually has a SAS 70/88 audit performed.

**WEST CENTRAL OHIO NETWORK
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-60275-001	Failure to properly report material accounts payable amounts.	No	Partially Corrected – Immaterial for the period. Reissued as a management comment.
1999-60275-002	Investment of public funds in high risk investments causing declining market value.	Yes	Finding No Longer Valid.



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WEST CENTRAL OHIO NETWORK

SHELBY 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 10, 2002**