

Cohen & Company

NORTH EAST OHIO NETWORK
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 1999

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of North East Ohio Network

We have reviewed the independent auditor's report of the North East Ohio Network , Trumbull County, prepared by Cohen & Company, Certified Public Accountants, for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The North East Ohio Network is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a large, stylized flourish that loops around the text.

JIM PETRO
Auditor of State

March 21, 2000

BOARD OF NORTH EAST OHIO NETWORK

Independent Auditors' Report

We have audited the accompanying general purpose financial statements of North East Ohio Network as of and for the year ended December 31, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of North East Ohio Network as of December 31, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic general purpose financial statements taken as a whole. The schedule of funds administered for county boards is presented for the purpose of additional analysis and is not a required part of the basic general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated February 8, 2000 on our consideration of North East Ohio Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



February 8, 2000
Youngstown, Ohio

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

DECEMBER 31, 1999

	<i>Governmental Fund General</i>	<i>Fiduciary Fund Agency</i>	<i>Asset Group General Fixed Assets</i>	<i>Totals (Memorandum Only)</i>
ASSETS				
Cash and cash equivalents	\$ 1,711,241	\$ 6,712,635		\$ 8,423,876
Investments	82,524	1,395,000		1,477,524
Deposits and prepaid expenses	64,257			64,257
Accounts receivable	35,196			35,196
Office equipment			\$ 78,877	78,877
Furniture and fixtures			<u>6,927</u>	<u>6,927</u>
Total assets	<u>\$ 1,893,218</u>	<u>\$ 8,107,635</u>	<u>\$ 85,804</u>	<u>\$ 10,086,657</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES				
Due to other governments	\$ 1,329,180	\$ 8,107,635		\$ 9,436,815
Accrued wages and benefits	7,945			7,945
Deferred revenue	89,770			89,770
Total liabilities	<u>1,426,895</u>	<u>8,107,635</u>		<u>9,534,530</u>
COMMITMENT				
EQUITY AND OTHER CREDITS				
Investment in general fixed assets			\$ 85,804	85,804
Fund balance	466,323			466,323
Total equity and other credits	<u>466,323</u>		<u>85,804</u>	<u>552,127</u>
Total liabilities, equity and other credits	<u>\$ 1,893,218</u>	<u>\$ 8,107,635</u>	<u>\$ 85,804</u>	<u>\$ 10,086,657</u>

The accompanying notes are an integral part of these statements.

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

YEAR ENDED DECEMBER 31, 1999

	<u>General</u>
REVENUES	
Waiver administration	\$ 524,675
Federal financial participation reimbursement	65,106
Family resource program administration fee	63,644
Major unusual incidents fee	60,489
Investment earnings	22,798
Net decrease in fair value of investments	(29,975)
Other	<u>18,750</u>
	<u>725,487</u>
EXPENDITURES	
Current:	
Health	
Wages	329,249
Employee benefits	102,310
Payroll taxes	19,866
Professional fees	9,414
Insurance	3,782
Office expense	19,122
Rent	36,000
Software	12,783
Telephone	17,017
Postage	5,485
Travel and meals	17,045
Seminars and training	3,118
Capital outlay	18,518
Miscellaneous	<u>127</u>
	<u>593,836</u>
EXCESS OF REVENUES OVER EXPENDITURES	131,651
FUND BALANCE - BEGINNING OF YEAR	<u>334,672</u>
FUND BALANCE - END OF YEAR	<u>\$ 466,323</u>

The accompanying notes are an integral part of these statements.

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

YEAR ENDED DECEMBER 31, 1999

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Waiver administration	\$ 447,600	\$ 524,675	\$ 77,075
Federal financial participation reimbursement	62,250	65,106	2,856
Family resource program administration fee	54,765	63,644	8,879
Major unusual incidents fee	63,800	60,489	(3,311)
Investment earnings	17,600	22,798	5,198
Net decrease in fair value of investments		(29,975)	(29,975)
Other	<u>31,000</u>	<u>18,750</u>	<u>(12,250)</u>
	<u>677,015</u>	<u>725,487</u>	<u>48,472</u>
EXPENDITURES			
Current:			
Health			
Wages	346,537	329,249	17,288
Employee benefits	108,156	102,310	5,846
Payroll taxes	20,909	19,866	1,043
Professional fees	10,300	9,414	886
Insurance		3,782	(3,782)
Office expense	19,500	19,122	378
Rent	36,000	36,000	
Software	20,000	12,783	7,217
Telephone	16,000	17,017	(1,017)
Postage		5,485	(5,485)
Travel and meals	25,000	17,045	7,955
Seminars and training	8,000	3,118	4,882
Capital outlay	30,500	18,518	11,982
Miscellaneous	<u>5,200</u>	<u>127</u>	<u>5,073</u>
	<u>646,102</u>	<u>593,836</u>	<u>52,266</u>
EXCESS OF REVENUES OVER EXPENDITURES	30,913	131,651	100,738
FUND BALANCE - BEGINNING OF YEAR	<u>334,672</u>	<u>334,672</u>	
FUND BALANCE - END OF YEAR	\$ <u>365,585</u>	\$ <u>466,323</u>	\$ <u>100,738</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Basis of Presentation

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

The Organization has the following fund types and account groups:

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

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and cash equivalents

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

Investments

Investments, primarily certificates of deposit and preferred stock are stated at fair market value.

Fixed Assets

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

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

Prepaid Expenses

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

Budgetary Information

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

3. CASH, DEPOSITS AND INVESTMENTS

The Organization invests in those instruments identified in Section 135.35 of the Ohio Revised Code. Specifically, authorized investment instruments consist of (1) Bonds, notes, or other obligations guaranteed by the United States; (2) Bonds, notes or other obligations issued by any Federal government agency; (3) Repurchase agreements under the terms of which agreement the Organization purchases and the seller agrees unconditionally to repurchase any of the securities listed in (1) or (2); (4) Bonds and other obligations of Ohio, its political subdivisions, or other units or agencies of Ohio or its political subdivisions; and (5) the Ohio State Treasurer's investment pool.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

3. CASH, DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

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

All deposits and investments are held in Merrill Lynch accounts in the name of the Organization or jointly in the name of the Organization and the individual county. All amounts held by Merrill Lynch are covered by Federal Deposit Insurance, Securities Investor Protection Corporation (SIPC) insurance, Excess SIPC coverage provided by surety bond, or financial guaranty insurance and, therefore, all deposits and investments are considered to be Category 1. The bank balance of deposits and carrying amount of investment balances is \$10,046,509.

4. GENERAL FIXED ASSETS ACCOUNT GROUP

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

	Balance <u>January 1, 1999</u>	<u>Additions</u>	Balance <u>December 31, 1999</u>
Office equipment	\$ 62,349	\$ 16,528	\$ 78,877
Furniture and fixtures	<u>4,937</u>	<u>1,990</u>	<u>6,927</u>
	<u>\$ 67,286</u>	<u>\$ 18,518</u>	<u>\$ 85,804</u>

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS

PERS

All North East Ohio Network full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer defined benefit public employee retirement system created by the State of Ohio. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. 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.

Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 1999 was 8.5%. The employer contribution rate was 13.55% of covered payroll; 9.35% was the portion used to fund pension obligations for 1999. The Organization's required contributions for pension obligations to PERS for the years ended December 31, 1999, 1998, and 1997 were \$30,785, \$22,617 and \$5,827, respectively, all of which had been paid as of December 31, 1999.

Other Postemployment Benefits

The Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. For 1999, the employer rate was 13.55% of covered payroll; 4.2% was the portion used to fund health care. The portion of the Organization's 1999 contributions actually used to fund post retirement benefits was \$13,828.

Effective January 1, 1998, PERS adopted a new calculation method for determining employer contributions applied to health care expenses. The contributions allocated to retirant health care along with investment income on allocated assets and periodic adjustments in health care provisions are expected to sustain the program. Under the new method, employer contributions are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retirant health care coverage.

The number of active contribution participants at December 31, 1998 (the latest information available) was 371,563. The net assets available for OPEB at December 31, 1998 were \$10 billion. As of December 31, 1997 (the latest information available) the plan was fully funded.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

6. RELATED PARTY TRANSACTIONS

The Organization subleases office space from a member county board. The lease agreement provides for set monthly payments through July 2003. Rent expense was \$36,000 and \$19,000, respectively, in 1999 and 1998. The future minimum annual lease payments are as follows:

2000	\$	36,000
2001		36,000
2002		36,000
2003		<u>18,000</u>
Total minimum lease payments	\$	<u>126,000</u>

This member also provides payroll services to the Organization.

7. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts and general liability; theft of, damage to, and destruction of assets, natural disasters; errors and omissions; and injuries to employees. The Organization maintains insurance to cover these risks. There have been no claims since the inception of the Organization.

8. YEAR 2000 DISCLOSURE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Organization's operations.

As of December 31, 1999 the Organization has inventoried its mission-critical computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting Organization operations. Based on this inventory, the Organization determined that no further remediation or system testing was required.

To the best of management's knowledge and belief, as of February 8, 2000, the government experienced no significant interruption of mission-critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Organization does business may also experience Year 2000 readiness issues that are, as yet, unknown.

SCHEDULE OF FUNDS ADMINISTERED FOR COUNTY BOARDS

YEAR ENDED DECEMBER 31, 1999

	Columbiana	Geauga	Lake	Lorain	Mahoning	Medina	Portage	Stark	Trumbull	Total
Cash and investment balance -										
January 1, 1999	\$ 314,310	\$ 25,352	\$ 202,215		\$ 435,726	\$ 48,931	\$ 271,362	\$ 1,070,323	\$ 82,639	\$ 2,450,858
Funds received	807,588	424,588	2,716,402	\$ 1,814,380	2,826,493	418,676	1,970,595	2,132,303	247,038	13,358,063
Investment earnings	33,782	2,298	19,599	17,289	36,230	4,623	16,668	74,709	4,247	209,445
Program expenses	(124,219)	(361,934)	(1,916,769)	(917,135)	(2,460,105)	(223,965)	(236,226)	(1,490,582)	(177,538)	(7,908,473)
Bank service charges	(312)	(150)	(320)	(202)	(150)	(302)	(300)	(162)	(360)	(2,258)
Cash and investment balance -										
December 31, 1999	\$ 1,031,149	\$ 90,154	\$ 1,021,127	\$ 914,332	\$ 838,194	\$ 247,963	\$ 2,022,099	\$ 1,786,591	\$ 156,026	\$ 8,107,635

BOARD OF NORTH EAST OHIO NETWORK

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

We have audited the general purpose financial statements of North East Ohio Network (the Organization) as of and for the year ended December 31, 1999, and have issued our report thereon dated February 8, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Organization in a separate letter dated February 8, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other immaterial matters involving the internal control over financial reporting that we have reported to the management of the Organization in a separate letter dated February 8, 2000.

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

Cohen & Company

February 8, 2000
Youngstown, Ohio



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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NORTH EAST OHIO NETWORK

TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By: *Susan Babbitt*

Date: APRIL 6, 2000