

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004*

**CATHY HENTHORN,
ASSOCIATE DIRECTOR
OF BUSINESS**



**Auditor of State
Betty Montgomery**

Board of Directors
Mid East Ohio Regional Council
160 Columbus Road
Mount Vernon, Ohio 43050

We have reviewed the Independent Auditor's Report of the Mid East Ohio Regional Council, Knox County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 15, 2005

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

Board of Directors
Mid East Ohio Regional Council
160 Columbus Road
Mt. Vernon, OH 43050

We have audited the accompanying financial statements of the Mid East Ohio Regional Council (the “Council”), Ohio, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Council’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mid East Ohio Regional Council’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mid East Ohio Regional Council, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the Mid East Ohio Regional Council implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, and GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements for the fiscal year ended June 30, 2004.

Board of Directors
Mid East Ohio Regional Council
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2005, on our consideration of the Mid East Ohio Regional Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
January 11, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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 fiscal year ended June 30, 2004. 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 2004 are as follows:

- Net assets increased \$49,603, which represents a 0.4% increase from 2003.
- The Council's revenues totaled \$5,917,760 in fiscal 2004. Expenses amounted to \$5,868,157.

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 2004?" 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 resources 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.

This statement reports the Council's net assets; however, in evaluating the overall position of the Council's non-financial information such as changes in the condition of the Council's capital assets will also need to be evaluated.

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 10 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 11-20 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The table below provides a summary of the Council's net assets for 2004.

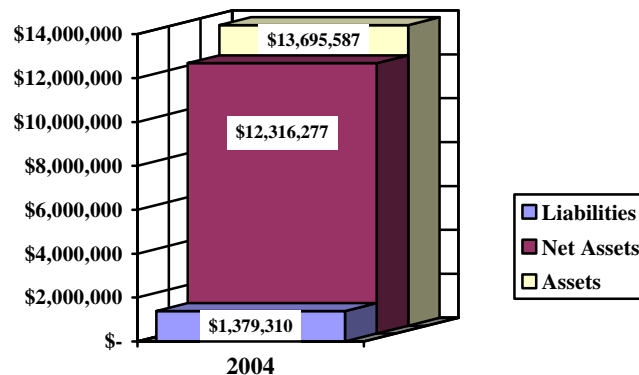
Net Assets

<u>Assets</u>	
Current assets	\$ 13,609,886
Capital assets	<u>85,701</u>
Total assets	<u>13,695,587</u>
<u>Liabilities</u>	
Current liabilities	<u>1,379,310</u>
Total liabilities	<u>1,379,310</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	85,701
Restricted	527,814
Unrestricted	<u>11,702,762</u>
Total net assets	<u>\$ 12,316,277</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Council's assets exceeded liabilities by \$12,316,277.

A portion of the Council's net assets, \$527,814, represents resources that are subject to external restriction on how they may be used. The Council has \$85,701 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net assets of \$11,702,762 may be used to meet the Council's ongoing activities.

This table below provides a summary of the Council's net assets for 2004.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The table below shows the change in net assets for business-type activities fiscal year 2004. Since this is the first year the Council has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

<u>Operating Revenues</u>	
Intergovernmental-intermediate	\$ 475,870
Intergovernmental-state	4,815,925
Intergovernmental-federal	503,712
Other local revenues	6,051
<u>Non Operating Revenues</u>	
Earnings on investments	<u>116,202</u>
Total revenues	<u>5,917,760</u>
<u>Operating Expenses</u>	
Salaries and benefits	1,205,010
Provider services	645,176
Rent	152,815
County expense	105,000
Other supported living	206,402
Specialized residential services	236,701
Room and board	246,928
IO waiver	1,796,909
Travel and training	90,754
Professional expense	121,287
Administrative overhead	90,970
Depreciation	12,704
Other expenses	22,136
<u>Non Operating Expenses</u>	
Return of equity to county	<u>935,365</u>
Total expenses	<u>5,868,157</u>
Changes in net assets	<u>\$ 49,603</u>

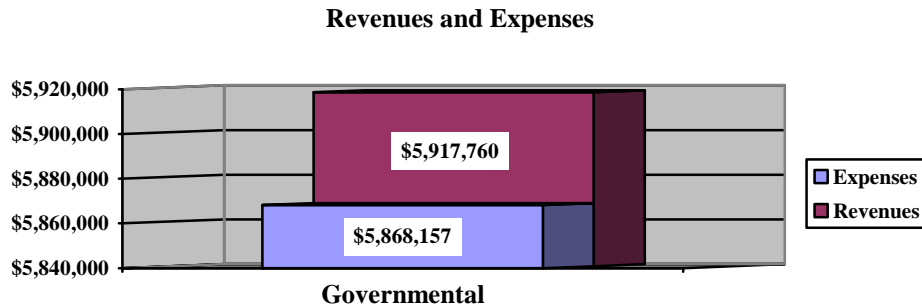
**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Governmental Activities

The Council's net assets increased \$49,603. Total expenses of \$5,868,157 were offset by revenues of \$5,917,760 expenses.

The graph below presents the Council's governmental activities revenue and expenses for fiscal year 2004.



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

At the end of fiscal 2004, the Council had \$85,701 invested in furniture and equipment. This total amount was reported on the statement of net assets. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Furniture and equipment	\$ 85,701	\$ 84,137

The overall increase in capital assets of \$1,564 is due to capital outlay of \$14,268 exceeding depreciation expense of \$12,704 in the fiscal year.

See Note 6 to the basic financial statements for additional information on the Council's capital assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Current Financial Related Activities

MEORC has developed three advisory councils in accordance with its by-laws, MUI Advisory Council, (MUI), Accreditation Readiness Advisory Council, (ARAC), and the Supported Living Advisory Council, (SLAC). Each Council has the responsibility to generate its own revenue and is responsible for its own annual budget once approved by MEORC.

SLAC's current fiscal position is good. As the preceding information reveals, SLAC relies heavily upon federal, state, and County Board of Mental Retardation and Developmental Disabilities funds for its operations. In fiscal year 2005 there are 13 county members participating in SLAC. In fiscal year 2006 we expect to have 12 counties. This will mean less revenue, but will also mean less in the way of expenses. Federal and state funds will almost certainly not increase, and more probably, will decrease. This will necessarily impact the number of people that are able to be served and the level of services that will be provided to our clients. The future financial stability of SLAC, therefore, is not without challenges.

The current fiscal position of the MUI Council has been challenged with the decline in the rates associated with Medicaid Targeted Case Management, TCM, over the past year. The current number of members participation has remained stable over the past 3 years with all 17 counties in MEORC participating in the MUI Advisory Council. However, with the recent loss of revenue from the decline in reimbursement rates in Federal funds (TCM), the project and the participating members routinely evaluate the cash flow to ensure that expenses will be covered in order to remain operational. With the future uncertainty of Targeted Case Management the future fiscal operations remains uncertain.

ARAC's current fiscal position is stable. The council is solely funded by member county boards. A substantial carryover has afforded the council the ability to lower their annual membership fees in fiscal year 2006. The annual fee reduction is due to the current state of reduced funding to local governments. Local funding trends have a direct impact on ARAC members. Long term, the council will need to address the lowering of the fees prior to FY-08 as a deficit is projected in the future as the carryover is depleted.

In conclusion, MEORC and its Member County Boards are committed to financial stability and soundness into the future. Members are actively and regularly involved in reviewing revenue and expenses of each Advisory Council.

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 to 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, Associate Director of Business, Mid East Ohio Regional Council, 160 Columbus Road, Mt. Vernon, Ohio 43050.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 12,900,364
Receivables:	
Due from other grants	686,493
Prepayments	23,029
Capital assets:	
Depreciable capital assets, net	85,701
	13,695,587
Total assets.	13,695,587
Liabilities:	
Accounts payable.	488,283
Knox county board payable	891,027
	1,379,310
Total liabilities	1,379,310
Net Assets:	
Invested in capital assets, net	
of related debt.	85,701
Restricted for:	
Restricted for supported living	369,539
Restricted for house bill 94	158,275
Unrestricted	11,702,762
	11,702,762
Total net assets	\$ 12,316,277

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating Revenues:	
Intergovernmental - Intermediate	\$ 475,870
Intergovernmental - State	4,815,925
Intergovernmental - Federal	503,712
Other local revenues	6,051
Total revenues	<u>5,801,558</u>
Operating Expenses:	
Salaries and benefits	1,205,010
Provider services	645,176
Rent	152,815
County expense.	105,000
Other supported living	206,402
Specialized residential services	236,701
Room and board.	246,928
IO waiver	1,796,909
Travel and training.	90,754
Professional expense.	121,287
Administrative overhead.	90,970
Depreciation	12,704
Other expenses	22,136
Total expenses.	<u>4,932,792</u>
Operating income	<u>868,766</u>
Nonoperating revenues and (expenses):	
Investment earnings.	116,202
Return of equity to County	(935,365)
Total nonoperating revenues and (expenses)	<u>(819,163)</u>
Change in net assets	49,603
Net assets at beginning of year (restated) . .	12,266,674
Net assets at end of year	<u>\$ 12,316,277</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:	
Cash received from other governments	\$ 5,855,527
Cash received from other operations	6,051
Cash payments for supported living	(4,231,874)
Cash payments for accreditation readiness	(64,177)
Cash payments for major unusual incidents	<u>(313,194)</u>
Net cash provided by operating activities	<u>1,252,333</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(14,268)
Cash payments for counties equity interest	<u>(935,365)</u>
Net cash used in capital and related financing activities .	<u>(949,633)</u>
Cash flows from investing activities:	
Cash received from interest earned	<u>116,202</u>
Net cash provided by investing activities.	<u>116,202</u>
Net increase in cash and cash equivalents	418,902
Cash and cash equivalents at beginning of year . .	<u>12,481,462</u>
Cash and cash equivalents at end of year.	<u><u>\$ 12,900,364</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 868,766
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	12,704
Changes in assets and liabilities:	
Decrease in due from other governments	60,020
(Increase) in prepayments	(11,759)
Increase in accounts payable	210,341
Increase in intergovernmental payable	<u>112,261</u>
Net cash provided by operating activities	<u><u>\$ 1,252,333</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE REGIONAL COUNCIL

Mid East Ohio Regional Council (the "Council") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by law. The Council is made up of the Boards of Mental Retardation and Developmental Disabilities of 17 counties pursuant to Chapter 167 of the Ohio Revised Code. The Council may not exceed the scope of the authority possessed by its member organizations.

Management believes the basic financial statements included in this report represent all of the activities of the Council over which it has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Council has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 subject to this same limitation. The Council has elected not to apply these FASB Statements and Interpretations. The Council's significant accounting policies are described below.

A. Reporting Entity

The Council's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB 39 "Determining Whether Certain Organizations are Component Units". The financial statements include all operations for which the Council is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organizations other than the Council itself are included in the financial reporting entity.

Based on the foregoing criteria, there were no PCU's for the fiscal year reported on in the basic financial statements in accordance with GASB Statement Nos. 14 and 39.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

PROPRIETARY FUNDS

A proprietary fund is used to account for the Council's ongoing activities which is 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 administration of supported living services, accreditation readiness services and major unusual investigative services.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the Council is pooled. The pool is presented as "Equity in pooled cash and cash equivalents" on the Statement of Net Assets.

During fiscal year 2004, investments were limited to STAR Ohio, money market and federal securities. 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 share price which is the price the investment could be sold for on June 30, 2004. Interest earned during the year was \$116,202.

For presentation on the statement of net assets and statement of cash flows, investments of the cash management pool and 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 4.

E. Prepayments

Prepayments represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as an asset on the statement of net assets using the consumption method.

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 maintains a capitalization threshold of \$250. Donated capital assets are recorded at their fair market values as of the date received. The Council does not possess any infrastructure. The Council's assets consist of furniture and equipment only.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Payroll and Related Fringe Benefits

The Council contracts with the Knox County Board of Mental Retardation and Developmental Disabilities (MRDD) for payroll services and fringe benefits, including contributing to the Ohio Public Employees Retirement System of Ohio (OPERS), consistent with Knox County policies and practices. The Council determines the salary, fringe benefits, and other options it elects to provide and notifies the Board.

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 are restricted for supported living and House Bill 94.

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. Neither type of transaction occurred during fiscal year 2004.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the Council has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, and 39.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the Council’s financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

Fund Reclassification and Restatement of Fund Balance - In addition, a fund reclassification is required to report the Council’s fund as a proprietary fund.

The fund reclassifications had the following effect on the Council’s business-type fund balances as previously reported:

	<u>General</u>	<u>Special Revenue</u>	<u>Business Type Fund</u>	<u>Total</u>
Fund balance				
June 30, 2003	\$ 4,013	\$ 12,178,524	\$ -	\$ 12,182,537
Fund reclassification	<u>(4,013)</u>	<u>(12,178,524)</u>	<u>12,182,537</u>	<u>-</u>
Adjusted fund balance,				
June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,182,537</u>	<u>\$ 12,182,537</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from business-type fund balances to net assets of the business-type activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2003	\$ 12,182,537
GASB 34 adjustments:	
Capital assets	84,137
Business-type activities net assets, June 30, 2003	\$ 12,266,674

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Council maintains a cash pool. This pool is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents". 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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;
5. 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, 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.

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: At year end, the carrying amount of the Council's deposits was \$87,390 and the bank balance was \$127,464 which was covered by federal deposit insurance.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Category of Risk 1</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency securities	<u>\$ 5,600,000</u>	\$ 5,600,000	\$ 5,600,000
Not subject to categorization:			
U.S. Governmental money market mutual fund		2,902,779	2,902,779
Investment in STAR Ohio		<u>4,310,195</u>	<u>4,310,195</u>
Total investments		<u>\$ 12,812,974</u>	<u>\$ 12,812,974</u>

The Council had an investment of \$4,310,195 in STAR Ohio. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

The classification of equity in pooled cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of equity in pooled cash and cash equivalents and investments on the Statement of Net Assets (per GASB Statement No. 9) and the classifications of deposits and investments presented above (per GASB Statement No. 3) is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 12,900,364	\$ -
Investments of the cash management pool:		
Investment in money market	(2,902,779)	2,902,779
Investment in federal securities	(5,600,000)	5,600,000
Investment in STAR Ohio	<u>(4,310,195)</u>	<u>4,310,195</u>
GASB Statement No. 3	<u>\$ 87,390</u>	<u>\$ 12,812,974</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004 consisted of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net assets follows:

Due from other governments	<u>\$ 686,493</u>
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All receivables are expected to be collected within subsequent years.

NOTE 6 - FIXED ASSETS

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

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/04</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 138,754	\$ 14,268	\$ -	\$ 153,022
Less: accumulated depreciation	<u>(54,617)</u>	<u>(12,704)</u>	<u>-</u>	<u>(67,321)</u>
Capital assets, net	<u>\$ 84,137</u>	<u>\$ 1,564</u>	<u>\$ -</u>	<u>\$ 85,701</u>

NOTE 7 - 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 fiscal year 2004, 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 \$125,000.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 8 - 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 June 30, 2004.

B. Litigation

The Council is currently a party to a legal proceeding, however, the outcome is indeterminable at this time.

NOTE 9 - RETIREMENT SYSTEMS

During fiscal 2004, all employees of the Council belonged to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004, OPERS members contributed 8.5% of their gross salaries. The Council contributed an amount equal to 13.55% of participants' gross salaries. As of June 30, 2004, the Council has paid all contributions required for 2004.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Board of Directors
Mid East Ohio Regional Council
160 Columbus Road
Mt. Vernon, OH 43050

We have audited the financial statements of the Mid East Ohio Regional Council as of and for the fiscal year ended June 30, 2004, which collectively comprise the Mid East Ohio Regional Council’s basic financial statements and have issued our report thereon dated January 11, 2005. As disclosed in Note 3 to the financial statements, the Mid East Ohio Regional Council implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements for fiscal year ended June 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mid East Ohio Regional Council’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Board of Directors
Mid East Ohio Regional Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mid East Ohio Regional Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Council of the Mid East Ohio Regional Council, Knox County, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
January 11, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
MAY 5, 2005**