

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

CAMBRIDGE, OHIO

BASIC FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Executive Board
Ohio Mid-Eastern Governments Association
326 Highland Ave.
P.O. Box 130
Cambridge, Ohio 43725

We have reviewed the *Independent Auditor's Report* of the Ohio Mid-Eastern Governments Association, Guernsey County, prepared by S.R. Snodgrass, A.C., for the audit period July 1, 2005 through June 30, 2006. 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 Ohio Mid-Eastern Governments Association is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2007

This Page is Intentionally Left Blank.

**OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
JUNE 30, 2006**

Table of Contents

	<u>Page Number</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	10 - 11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12 - 13
NOTES TO THE BASIC FINANCIAL STATEMENTS	14 - 22
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23 - 24

This Page is Intentionally Left Blank.



INDEPENDENT AUDITOR'S REPORT

Executive Board
Ohio Mid-Eastern Governments Association
Cambridge, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ohio Mid-Eastern Governments Association (OMEGA), as of and for the year ended June 30, 2006, which collectively comprise OMEGA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OMEGA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Ohio Mid-Eastern Governments Association as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2006, on our consideration of the Ohio Mid-Eastern Governments Association'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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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 assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consist 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.

S. N. Snodgrass, A. C.

Wheeling, West Virginia
September 13, 2006

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

Management's Discussion and Analysis For the Year Ended June 30, 2006

The discussion and analysis of the Ohio Mid-Eastern Governments Association's (OMEGA) financial performance provides an overall review of OMEGA's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at OMEGA's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of OMEGA's financial performance.

Financial Highlights

Key financial highlights for the year 2006 are as follows:

- Net assets of governmental activities increased by \$55,940.
- Intergovernmental revenues in the form of federal and state grant funds for governmental activities accounted for \$399,812 in revenue, or almost 88 percent of all governmental revenues. Program specific revenues in the form of charges for services and interest on revolving loan fund loans accounted for \$56,474, or 12 percent of total program specific revenues of \$456,286.
- OMEGA had \$532,609 in expenses related to governmental activities; only \$456,286 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$132,263 were adequate to provide for these programs.
- The Revolving Loan Fund granted six new loans during the year with aggregate proceeds of \$272,180.
- The General Fund, one of the major funds, had \$118,423 in revenues. The General Fund's balance increased by \$26,806 after transfers out to other funds. General Fund revenue increased \$10,353, or 10 percent, primarily as the result of an increase in miscellaneous revenue.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand OMEGA as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The statement of net assets and statement of activities provide information about the activities of the whole agency, presenting both an aggregate view of OMEGA's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements also look at OMEGA's most significant funds with all other non-major funds presented, in total, in one column.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2006

Reporting the Agency as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by OMEGA to provide programs and activities for citizens, the view of OMEGA as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report OMEGA's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for OMEGA as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the availability of federal and state grant funding, continued support from member governments, and other factors.

Reporting OMEGA's Most Significant Funds

Fund Financial Statements

The analysis of OMEGA's major funds is included in the fund financial statements. Fund financial reports provide detailed information about OMEGA's major funds. OMEGA uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on OMEGA's most significant funds. OMEGA's major governmental funds are the General Fund, Revolving Loan Fund, Appalachian Regional Commission Fund, Economic Development Administration Fund, and Small Business Development Center. OMEGA has only governmental funds.

Governmental Funds - OMEGA's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of OMEGA's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance OMEGA's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 22 of this report.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2006

The Agency as a Whole

Recall that the statement of net assets provides the perspective of OMEGA as a whole. Table 1 provides a summary of OMEGA's net assets as of June 30, 2006, compared to June 30, 2005. OMEGA has only governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$ 727,496	\$ 696,269
Loans Receivable, net	1,162,358	1,098,192
Total Assets	1,889,854	1,794,461
Liabilities		
Current and Other Liabilities	152,153	50,776
Net Assets		
Restricted	1,162,358	1,098,192
Unrestricted	575,343	645,493
Total Net Assets	\$ 1,737,701	\$ 1,743,685

Total assets increased \$95,393. Loans receivable increased by \$64,166. Borrowers repaid one loan prior to scheduled maturity. Principal repayments during the year totaled \$208,014, while aggregate proceeds from new loans granted were \$272,180. Total liabilities increased \$101,377.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2006

Table 2 shows the changes in net assets for the year ended June 30, 2006, compared to the year ended June 30, 2005. OMEGA has only governmental activities.

Table 2
Change in Net Assets

	2006	2005
Revenues		
Program Revenues:		
Charges for Services	\$ 56,474	\$ 53,908
Operating Grants	399,812	436,067
General Revenues:		
Membership and Other Fees	103,166	104,662
Interest	16,487	7,213
Miscellaneous	12,610	2,093
Total Revenues	588,549	603,943
 Expenses		
Economic Development	532,609	539,448
 Change in Net Assets	\$ 55,940	\$ 64,495

In fiscal 2006, 68 percent of OMEGA's revenues were from operating grants, as compared to 72 percent in 2005. In fiscal year 2006, 18 percent of revenues came from membership and other fees compared to 17 percent in fiscal 2005.

Program revenues accounted for 78 percent of OMEGA's revenues in fiscal year 2006, down from 81 percent in the prior year. These revenues consist of various federal and state grants and charges for services, including interest on revolving loan fund loans.

Economic Development accounts for 100 percent of total program expenses. Total expenses were \$6,839 less in fiscal 2006 than in 2005.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2006

The Agency Funds

OMEGA's major funds are accounted for using the accrual basis of accounting. All governmental funds had total revenues of \$588,549 and expenditures of \$532,609. As apparent, OMEGA's revenues exceeded spending during the fiscal year ended June 30, 2006. There were no significant changes in OMEGA's major funds from the previous year, which include the General, Revolving Loan, Appalachian Regional Commission, Economic Development Administration, and Small Business Development Center (SBDC) Funds. SBDC expenditures exceeded revenue by \$29,082 for the year. This deficit was offset by transfers of \$29,950 from the General Fund.

General Fund and Budgetary Highlights

Although a legal budget is not required, budgets for expenditure of federal grants are prepared and approved by the awarding federal government agency at the time the grants are awarded. During the course of fiscal year 2006, OMEGA supplemented its Economic Development Administration with transfers from the General Fund in the amount of \$26,003. Similarly, General Fund transfers were made to the Appalachian Regional Commission Fund in the amount of \$35,515 and to the SBDC in the amount of \$29,950, as noted above.

The General Fund increased by \$26,806 during fiscal year 2006, as revenues were sufficient to cover expenses and necessary grant fund transfers. The most significant component of General Fund revenues is the fees charged to members.

Economic Factors

OMEGA is currently operating within its means. However, OMEGA's ability to attract administrative funds for its projects is heavily dependent upon the federal and state governments and the availability of grant funds. OMEGA operates within a designated ten-county area of East Central Ohio. Loans made through the revolving loan fund are to businesses within this area. The ability to repay these loans is largely contingent upon the business economy in the ten-county area.

Contacting the Agency's Financial Management

This financial report is designed to provide a general overview of OMEGA's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Sue Wood, Fiscal Officer, 326 Highland Avenue, P.O. Box 130, Cambridge, Ohio 43725.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

Statement of Net Assets

June 30, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 688,566
Grants Receivable	26,496
Prepaid Expenses	12,434
Loans Receivable, Net	<u>1,162,358</u>
<i>Total Assets</i>	<u>1,889,854</u>
Liabilities	
Accrued Expenses	\$ 1,268
Accrued Wages and Benefits	26,456
Self-insurance Liability	55,111
Deferred Revenue	<u>69,318</u>
<i>Total Liabilities</i>	<u>152,153</u>
Net Assets	
Restricted for:	
Loans	1,162,358
Unrestricted	<u>575,343</u>
<i>Total Net Assets</i>	<u>\$ 1,737,701</u>

See accompanying notes to the basic financial statements

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

Statement of Activities

For the Year Ended June 30, 2006

	Expenses	Program Revenues		Net Expense and
		Charges for Services	Operating Grants and Contributions	Change in Net Assets
				Primary Government
				Governmental
				Activities
Primary Government				
Governmental Activities:				
General Government	\$ 532,609	\$ 56,474	\$ 399,812	\$ (76,323)
General Revenues				
				\$ 103,166
				16,487
				12,610
				<u>132,263</u>
				55,940
				<u>1,681,761</u>
				<u>\$ 1,737,701</u>

See accompanying notes to the basic financial statements

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Revolving Loan Fund	Appalachian Regional Commission	Economic Development Administration	Small Business Development Center	Total Governmental Funds
Assets						
Equity in Pooled Cash and						
Cash Equivalents	\$ 194,184	\$ 413,494	\$ 76,141	\$ 4,747	\$ -	\$ 688,566
Grants Receivable	165	-	10,844	-	15,487	26,496
Prepaid Items	12,434	-	-	-	-	12,434
Due From Other funds	19,890	-	-	-	-	19,890
Loans Receivable, Net	-	1,162,358	-	-	-	1,162,358
<i>Total Assets</i>	<u>\$ 226,673</u>	<u>\$ 1,575,852</u>	<u>\$ 86,985</u>	<u>\$ 4,747</u>	<u>\$ 15,487</u>	<u>\$ 1,909,744</u>
Liabilities						
Accrued Expenses	\$ 1,268	\$ -	\$ -	\$ -	\$ -	\$ 1,268
Due to Other Funds	-	10,435	-	-	9,455	19,890
Self-insurance liability	55,111	-	-	-	-	55,111
Accrued Wages and Benefits	-	1,268	19,389	3,025	2,774	26,456
Deferred Revenue	-	-	67,596	1,722	-	69,318
<i>Total Liabilities</i>	<u>56,379</u>	<u>11,703</u>	<u>86,985</u>	<u>4,747</u>	<u>12,229</u>	<u>172,043</u>
Fund Balances						
Reserved for Loans Receivable	-	1,162,358	-	-	-	1,162,358
Unreserved:						
Undesignated Reported in:						
General Fund	170,294	-	-	-	-	170,294
Special Revenue Funds	-	401,791	-	-	3,258	405,049
<i>Total Fund Balances</i>	<u>170,294</u>	<u>1,564,149</u>	<u>-</u>	<u>-</u>	<u>3,258</u>	<u>1,737,701</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 226,673</u>	<u>\$ 1,575,852</u>	<u>\$ 86,985</u>	<u>\$ 4,747</u>	<u>\$ 15,487</u>	<u>\$ 1,909,744</u>

See accompanying notes to the basic financial statements

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

Reconciliation of Total Governmental Fund Balances to

Net Assets of Governmental Activities

June 30, 2006

Total Governmental Funds Balances	\$1,737,701
--	--------------------

*Amounts reported for governmental activities in the
statement of net assets are different because*

NONE

Net assets of governmental activities	<u><u>\$1,737,701</u></u>
---------------------------------------	---------------------------

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Revolving Loan Fund	Appalachian Regional Commission	Economic Development Administration	Small Business Development Center	Total Governmental Funds
Revenues						
Intergovernmental	\$ -	\$ -	\$ 285,539	\$ 57,970	\$ 56,302	\$ 399,811
Interest	2,646	13,841	-	-	-	16,487
Membership Fees	103,166	-	-	-	-	103,166
Charges for Services	-	56,474	-	-	-	56,474
Other	12,611	-	-	-	-	12,611
<i>Total Revenues</i>	<u>118,423</u>	<u>70,315</u>	<u>285,539</u>	<u>57,970</u>	<u>56,302</u>	<u>588,549</u>
Expenditures						
Current:						
Economic Development	149	42,049	321,054	83,973	85,384	532,609
<i>Total Expenditures</i>	<u>149</u>	<u>42,049</u>	<u>321,054</u>	<u>83,973</u>	<u>85,384</u>	<u>532,609</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>118,274</u>	<u>28,266</u>	<u>(35,515)</u>	<u>(26,003)</u>	<u>(29,082)</u>	<u>55,940</u>
Other Financing Sources (Uses)						
Transfers In	-	-	35,515	26,003	29,950	91,468
Transfers Out	(91,468)	-	-	-	-	(91,468)
<i>Total Other Financing Sources (Uses)</i>	<u>(91,468)</u>	<u>-</u>	<u>35,515</u>	<u>26,003</u>	<u>29,950</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	26,806	28,266	-	-	868	55,940
<i>Fund Balances Beginning of Year, as restated</i>	<u>143,488</u>	<u>1,535,883</u>	<u>-</u>	<u>-</u>	<u>2,390</u>	<u>1,681,761</u>
<i>Fund Balances End of Year</i>	<u>\$170,294</u>	<u>\$ 1,564,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,258</u>	<u>\$ 1,737,701</u>

See accompanying notes to the basic financial statements

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds **\$55,940**

*Amounts reported for governmental activities in the
statement of activities are different because*

NONE

Change in Net Assets of Governmental Activities \$55,940

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Ohio Mid-Eastern Governments Association ("OMEGA") is a ten-county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas Counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application of Appalachian Regional Commission and Economic Development Administration grant monies.

OMEGA is a jointly governed entity administered by a sixteen member Executive Board ("Board") which acts as the authoritative body of the entity. The Board is comprised of members appointed from each participating county and the cities within each county. City membership is voluntary. The Board has total control over budgeting, personnel, and financial matters.

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and the financial statements include all organizations, activities, and functions that comprise OMEGA. Component units are legally separate entities for which OMEGA (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) OMEGA's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, OMEGA. Using these criteria, OMEGA has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when OMEGA receives cash.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

OMEGA uses funds 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. OMEGA only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

OMEGA reports the following major governmental funds:

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

Revolving Loan Fund – The Revolving Loan Fund offers low-interest loans to businesses within OMEGA's ten-county region. Such funds are to be used in the event that full financing cannot be obtained from a bank, or to fill the gap between bank financing and the financing necessary to complete a business project. Bank participation is required. Initial funding for the Revolving Loan Fund came from grants from the Appalachian Regional Commission and the Economic Development Administration.

Appalachian Regional Commission – The Appalachian Regional Commission Fund is used to account for operating grant funds received from the Appalachian Regional Commission.

Economic Development Administration – The Economic Development Administration Fund is used to account for operating grant funds received from the Economic Development Administration.

Small Business Development Center – The OMEGA Small Business Development Center strives to offer free assistance to anyone in Muskingum, Guernsey, and Belmont Counties with the desire to start or expand a small business.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and becomes available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For OMEGA, available means expected to be received within 60 days of fiscal year-end. Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year-end.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonexchange transactions, in which OMEGA receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations 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, matching requirements in which OMEGA must provide local resources to be used for a specific purpose, and expenditure requirements in which the resources are provided to OMEGA on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

D. Interfund Transactions

During the course of normal operations, OMEGA has transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as “Other Financing Sources and Uses” in the governmental funds, as “Operating Transfers In” by the recipient fund, and “Operating Transfers Out” by the disbursing fund.

On the governmental funds balance sheet, receivables and payables resulting from short-term interfund loans are classified as “interfund loan receivables/payables.” These amounts are eliminated on the statement of net assets.

E. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. OMEGA maintains a capitalization threshold of \$5,000. OMEGA does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. At June 30, 2006, OMEGA owned one capital asset with a cost exceeding its capitalization threshold. The cost of the asset is \$6,467 and it was fully depreciated as of June 30, 2005. Therefore, no depreciation expense was recorded for the fiscal year ended June 30, 2006. There were no additions or deletions to capital assets during the year.

F. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Reservation of Fund Balance

OMEGA records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity which is available for appropriations in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

H. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by OMEGA legislation or external restrictions by creditors, grantors, laws, or regulations of other governments.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. Deferred Revenues

OMEGA reports unearned deferred revenue in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within 60 days after year-end are considered to have been for prior year services.

K. Budgetary Process

Although a legal budget is not required, nor is a budgetary statement, budgets for expenditure of federal grants are submitted to and approved by the federal government agency at the time the grants are awarded. The grants also require a contribution from nonfederal sources equal to a specified percentage of the project costs. The nonfederal contributions may be in cash or in-kind. In-kind funds for the year ended June 30, 2006, amounted to \$80,724.

L. Cost Allocation

Office of Management and Budget Circular A-87 provides for the establishment of cost pools which are to be distributed over the benefiting activity in some rational and equitable manner. The concept of indirect costs is introduced and defined as follows in Circular A-87: "Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited without effort disproportionate to the results achieved."

OMB Circular A-87 also provides the following basis options for the allocation of indirect costs accumulated in an indirect cost pool: (1) direct salary costs or (2) total direct costs, excluding items like large consulting contracts and capital expenditures.

OMEGA chose the direct salary cost method because management has determined that this is the most equitable allocation method. Management and administrative salaries and indirect costs are allocated to the various programs using the actual rate as determined by the method shown in OMEGA's cost allocation plan.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

OMEGA reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences* as interpreted by Interpretation No. 6 of the GASB, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Vacation and compensatory time 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 OMEGA will compensate the employees for the benefits through paid time off or some other means. Since unused sick leave is not payable upon termination, no accrual is made for sick leave.

The entire compensated absence liability is reported on the government-wide financial statements and in the governmental funds.

NOTE 2. DONATED SPACE AND SERVICES

The Board members of OMEGA have donated their time and travel expenses related to Board meetings. The total value of the wages and travel donated is estimated to be \$18,540. OMEGA also received donated office space and office equipment from various sources. The value of the space and equipment is estimated to be \$62,184.

NOTE 3. DEPOSITS AND INVESTMENTS

The investments and deposits of OMEGA are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit OMEGA to invest monies in certificates of deposit, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. OMEGA may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days. Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that securities maintained for public deposits and investments be held in OMEGA's name. OMEGA is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). OMEGA is also prohibited from investing in reverse repurchase agreements.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, OMEGA's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as a specific collateral held at the Federal Reserve Bank in the name of OMEGA.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2006, the carrying amount of the OMEGA's deposits was \$688,566 as compared to a bank balance of \$724,741. Of the bank balance, \$200,000 was on deposit and covered by federal depository insurance and \$524,741 was collateralized by a pool of securities maintained by OMEGA's financial institutions but not in OMEGA's name. There are no cash restrictions at June 30, 2006.

Investments

OMEGA held no investments at June 30, 2006.

NOTE 4. CONCENTRATIONS

All of OMEGA's loans and commitments have been granted to customers in a ten-county area of Mid-Eastern Ohio. OMEGA's loans are generally secured by specific items of collateral, including real property, vehicles, and business assets. Repayment of these loans is dependent, in part, upon the economic conditions of this region. Management monitors the collectibility of the revolving loan portfolio on an ongoing basis. As of June 30, 2006, management determined that all of the loan balances listed above were fully collectible.

The majority of OMEGA's funding is through federal and state grants. Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as inappropriate expenditures. Such audits could lead to reimbursement to the grantor agency. Management of OMEGA believes disallowances, if any, will be immaterial.

NOTE 5. DEFINED BENEFIT PENSION PLAN – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

OMEGA participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the fiscal year ended June 30, 2006, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries through December 31, 2005 and 9.0 percent thereafter. OMEGA's contribution rate for pension benefits for the fiscal year ended June 30, 2006 was 9.55 percent through December 31, 2005 and 9.70 percent thereafter. The Ohio Revised Code provides statutory authority for member and employer contributions.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 6. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

OMEGA's required contribution for pension obligations to the traditional and combined plans for the years ended June 30, 2006, 2005, and 2004, were \$ 29,115, \$30,526, and \$29,073, respectively. The full amount has been contributed for 2003, 2004, and 2005.

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or the combined plans. 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 Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care based on authority granted by State Statute. The employer contribution rate used to fund health care benefits was 4.0 percent for the fiscal year ended June 30, 2006.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. OMEGA's actual contributions for the fiscal year ended June 30, 2006, which were used to fund post-employment benefits, were \$12,195. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCCP) with an effective date of January 1, 2007. The HCCP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

NOTE 7. OTHER EMPLOYEE BENEFITS

Full-time employees earn vacation on the number of years of service with OMEGA. Vacation pay is accumulated and vested. In the event that any employee terminates his/her employment, he/she may be compensated for accumulated vacation pay.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 8. RISK MANAGEMENT

OMEGA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. OMEGA maintains comprehensive insurance coverage with private carriers for general liability, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully co-insured.

<u>Type</u>	<u>Amount</u>	<u>Company</u>
Professional Liability	\$1,000,000	Stratford Insurance Co.
General Liability	500,000	Westfield Companies
Office Contents	70,000	Westfield Companies
Employee Theft	50,000	Westfield Companies

Settled claims have not exceeded coverage in any of the last three years. There has been no significant reduction in coverage from the prior year.

OMEGA is a participant in the OME-RESA Health Benefits Insurance Consortium (“the Consortium”). The Consortium is a claims servicing self-insurance pool organized under Ohio Revised Code Chapter 167 for the purpose of establishing and carrying out a cooperative program to administer medical, prescription, vision and dental benefits for employees of participating entities and their eligible dependents. The Consortium contracts with third party administrators to process and pay health claims, dental claims and vision claims incurred by its members. The Consortium also purchases stop loss coverage for claims in excess of a set amount for individual claims and in the pool’s aggregate.

As a member of the Consortium, OMEGA is obligated to pay a fee based on an estimate of its share of the Consortium’s costs for the fiscal year. Included in this estimate are claims by eligible employees, OMEGA’s share of insurance premiums and its proportionate share of the administrative costs of the Consortium. The actual balance of each member’s account is determined on an annual basis. As of June 30, 2006 OMEGA owed the Consortium \$55,111.

NOTE 9. CONTINGENCIES

OMEGA received financial assistance from federal and state 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OMEGA at June 30, 2006.

NOTE 10. LEASES

OMEGA leases office equipment under various operating leases with terms exceeding one year. The association's administrative offices are leased under a year-to-year agreement. The amount expensed under these operating leases during the year ended June 30, 2006, was \$21,810. Minimum future payments required under leases with a minimum term exceeding one year are approximately \$6,000 each for the years ending June 30, 2007 and 2008; \$5,000 for the year ending June 30, 2009; and \$1,200 for the year ending June 30, 2010.

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 11. OPERATING TRANSFERS

The following is a summary of operating transfers in and out for all funds for the year ended June 30, 2006:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ -	\$ 91,468
Appalachian Regional Commission	35,515	-
Economic Development Administration	26,003	-
Small Business Development Center	<u>29,950</u>	<u>-</u>
Totals	<u>\$ 91,468</u>	<u>\$ 91,468</u>

NOTE 12. RESTATEMENT OF FUND BALANCE AND NET ASSETS

During 2006, OMEGA discovered that it had a liability for unfunded claims as a member of a self-insurance pool. Beginning of the year net assets and fund balances were restated as follows to reflect the amount of the liability that existed at June 30, 2005.

	<u>General Fund</u>	<u>Net Assets</u>
As previously stated	\$ 205,412	\$ 1,743,685
Self-insurance liability	<u>(61,924)</u>	<u>(61,924)</u>
As restated	<u>\$ 143,488</u>	<u>\$ 1,681,761</u>



**INDEPENDENT AUDITOR'S 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***

Executive Board
Ohio Mid-Eastern Governments Association
Cambridge, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ohio Mid-Eastern Governments Association as of and for the year ended June 30, 2006, and have issued our report thereon dated September 13, 2006. 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 Ohio Mid-Eastern Governments Association'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ohio Mid-Eastern Governments Association'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*.

This report is intended solely for the information of the Executive Board, management, others within the organization, and the federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

S. N. Sudgum, A.C.

Wheeling, West Virginia
September 13, 2006



Mary Taylor, CPA
Auditor of State

OHIO MID-EASTERN GOVERNMENTS ASSOCIATION

GUERNSEY 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
MARCH 22, 2007**