



**NORTH EAST OHIO NETWORK
MAHONING COUNTY**

**REGULAR AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2012**



Dave Yost • Auditor of State

Board of Trustees
North East Ohio Network
5121 Mahoning Ave., Suite 102
Austintown, Ohio 44515

We have reviewed the *Independent Auditor's Report* of the North East Ohio Network, Mahoning County, prepared by Canter & Associates, for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted this report in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 5, 2013

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**North East Ohio Network
Mahoning County**

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INDEPENDENT AUDITOR'S REPORT

North East Ohio Network
Mahoning County
5121 Mahoning Ave., Suite 102
Austintown, Ohio 44515

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund (General) and the remaining fund information of the North East Ohio Network, (the Organization), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund (General) and the remaining fund information, of the North East Ohio Network, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, during the year ended December 31, 2012, the Organization adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The schedule of revenues, expenditures, and changes in fund balance-budget and actual and the schedule of funds administered for county boards are presented for purposes of additional analysis and are not a required part of the basic financial statements..

The schedule of revenues, expenditures, and changes in fund balance-budget and actual and the schedule of funds administered for county boards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenditures, and changes in fund balance-budget and actual and the schedule of funds administered for county boards are fairly stated in all material respects in relation to the basic financial statements as a whole

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of the Organization'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 internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Canter & Associates
Poland, Ohio

September 13, 2013

North East Ohio Network
Mahoning County

Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The discussion and analysis of North East Ohio Network (the Organization) financial performance provides an overall review of the Organization's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the Organization'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 the Organization's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

Overall:

- The assets of the Organization exceeded its liabilities at the close of the year ended December 31, 2012, by \$1,522,961 (net position).
- At the end of the current fiscal year, the Organization's general fund reported an ending fund balance of \$1,453,953 all of which is available to fund future operations.
- The Organization's total net position increased by \$131,185 which represents a 9% increase from 2011.

Using these Basic Financial Statements

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Organization, presenting both an aggregate view of the Organization'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 and what remains for future spending. The fund financial statements also look at the Organization's most significant fund which in the case of North East Ohio Network is the general fund.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The view of the Organization as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The Statement of Net Position and the Statement of Activities answers 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.

North East Ohio Network
Mahoning County

Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

These two statements report the Organization's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Organization as a whole, the *financial position* of the Organization has improved or diminished.

Reporting the Organization's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The Organization, like other state and local government entities, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of the Organization can be divided into two categories: governmental funds and fiduciary funds. Fund financial reports provide detailed information about the Organization's major fund which is the general fund which encompasses all of the Organization's non-fiduciary activities.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is different than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The statements provide a reconciliation to facilitate a comparison between governmental funds and governmental activities.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Organization's own expenses. The accounting used for fiduciary funds is much like that used for proprietary funds.

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. The notes to the basis financial statements begin on page 16 of this report.

North East Ohio Network
Mahoning County

Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets exceeded liabilities by \$1,522,961 at December 31, 2012 and by \$1,391,146 at December 31, 2011.

Table 1 provides a summary of the Organization's net position for 2012 and 2011.

Table 1

	2012 Governmental Activities	2011 Governmental Activities	Increase (Decrease)
Assets:			
Cash and Investments	\$1,430,635	\$1,347,876	\$82,759
Other Assets	72,708	47,644	25,064
Capital Assets, net of accumulated dep.	61,255	50,893	10,362
<i>Total Assets</i>	<u>1,564,598</u>	<u>1,446,413</u>	<u>118,185</u>
Liabilities:			
Current Liabilities	41,637	55,267	(13,630)
<i>Total Liabilities</i>	<u>41,637</u>	<u>55,267</u>	<u>(13,630)</u>
Net Position:			
Net Investment in Capital Assets	61,255	50,893	10,362
Unrestricted	1,461,706	1,340,253	121,453
<i>Total Net Position</i>	<u>\$1,522,961</u>	<u>\$1,391,146</u>	<u>\$131,815</u>

Total assets increased by \$118,185. The increase can be attributed to an overall increase in receivables and other assets as well as a decrease in operating costs.

Total liabilities decreased by \$13,630. This decrease was due mostly to a decrease in the accounts payable from the prior year.

By comparing assets and liabilities, one can see the overall position of the Organization has improved as evidenced by the increase in net position of \$131,815.

North East Ohio Network
Mahoning County

Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 below provides a summary of the changes in net position for 2012 and 2011.

Table 2
Change in Net Position
Governmental Activities

	2012	2011	Increase (Decrease)
Revenues:			
<i>General Revenues</i>			
Revenue	\$2,068,464	\$2,126,131	(\$57,667)
<i>Total Revenues</i>	2,068,464	2,126,131	(57,667)
<i>Program Expenses</i>			
Health	1,936,649	2,105,994	(169,345)
<i>Total Program Expenses</i>	1,936,649	2,105,994	(169,345)
<i>Increase (decrease) in Net Position</i>	131,815	20,137	111,678
Net Position Beginning of Year	1,391,146	1,371,009	20,137
<i>Net Position End of Year</i>	\$1,522,961	\$1,391,146	\$131,815

Wages and related benefits and taxes accounted for 75% of total expenses in 2012 and 78% in 2011.

Revenues from waiver administration and major unusual incident fees account for 35% of total revenues in 2012 and 40% in 2011.

Financial Analysis of the Organization's Funds

As noted earlier, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The general fund is the chief operating fund of the Organization. At December 31, 2012, the unassigned fund balance of the general fund was \$1,447,975. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. At December 31, 2012, unassigned fund balance represents approximately 74% of the total fund expenditures.

The fund balance of the Organization's general fund increased by \$116,175 during the current year. Revenues were down \$77,238 while expenditures were also down \$150,633. The decrease in revenue is related to decreased participation in the level one waiver administration and quality assurance programs. The decrease in expenses is due to a slight decrease in wages, employee benefits, and general operating expenses.

General Fund Budgeting Highlights

The Organization's budget is prepared at the request of the Board and is based on accounting for certain transactions on the cash basis. The only budgeted fund is the General Fund.

North East Ohio Network
Mahoning County

Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Capital Assets and Debt Administration

Capital Assets: The Organization's investment in capital assets for its governmental activities as of December 31, 2012, amounts to \$61,255 (net of accumulated depreciation). This investment in capital assets includes software, furniture and equipment. Note 5 provides' capital asset activity during 2012.

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. North East Ohio Network has been organized to provide services on a cost efficient basis to the member county boards of DD.

Contacting North East Ohio Network's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Organization's finances and to reflect the Organization's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mr. Valdeoso Patterson, Business Manager, North East Ohio Network, 5121 Mahoning Avenue, Suite 102, Austintown, Ohio 44515-1895.

North East Ohio Network

Mahoning County, Ohio

*Statement of Net Position
December 31, 2012*

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$1,092,370
Investments	338,265
Deposits and Prepaid Expenses	5,978
Cash with Fiscal Agent	23,350
Accounts Receivable from other Governments	42,097
Accrued Interest Receivable	1,283
Capital Assets, Net of Accumulated Depreciation	61,255
<i>Total Assets</i>	<u>1,564,598</u>
Liabilities	
Accounts Payable	6,054
Estimated Insurance Claims Payable	6,788
Accrued Wages and Benefits	28,795
<i>Total Liabilities</i>	<u>41,637</u>
Net Position	
Net Investment in Capital Assets	61,255
Unrestricted	1,461,706
<i>Total Net Position</i>	<u>\$1,522,961</u>

See accompanying notes to the basic financial statements.

North East Ohio Network

Mahoning County, Ohio

*Balance Sheet
Governmental Funds
December 31, 2012*

	<u>General</u>
Assets	
Cash and Cash Equivalents	\$1,092,370
Investments	338,265
Deposits and Prepaid Expenses	5,978
Cash with Fiscal Agent	23,350
Accounts Receivable from other Governments	42,097
Accrued Interest Receivable	1,283
<i>Total Assets</i>	<u><u>\$1,503,343</u></u>
Liabilities	
Accounts Payable	\$6,054
Estimated Insurance Claims Payable	6,788
Accrued Wages and Benefits Payable	28,795
Deferred Revenue	7,753
<i>Total Liabilities</i>	<u>49,390</u>
Fund Balances	
Nonspendable	5,978
Unassigned	1,447,975
<i>Total Fund Balances</i>	<u>1,453,953</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$1,503,343</u></u>

See accompanying notes to the basic financial statements.

North East Ohio Network

Mahoning County, Ohio

*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2012*

Total Governmental Fund Balances	\$1,453,953
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	61,255
Accounts receivable not available to pay for current period expenditures are deferred in the fund.	<u>7,753</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$1,522,961</u></u>

See accompanying notes to the basic financial statements

North East Ohio Network

Mahoning County, Ohio

*Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012*

	<u>General</u>
Revenues	
Waiver Administration	\$323,899
Family Support Services Administration Fee	396,955
Major Unusual Incidents Fee	387,265
Membership Fees	52,000
Quality Assurance	363,707
Provider Training	164,279
Investment Earnings	2,310
Other	56,125
MAC Revenue	316,646
<i>Total Revenues</i>	<u>2,063,186</u>
Expenditures	
<i>Current:</i>	
Wages	1,091,072
Employee Benefits	369,794
Payroll Taxes	15,395
Professional Fees	110,649
Office Expense	52,303
Rent	67,100
Software	65,964
Telephone	24,677
Postage	11,668
Travel and Meals	85,428
Seminars and Training	7,906
Miscellaneous	18,882
Capital Outlay	26,173
<i>Total Expenditures</i>	<u>1,947,011</u>
<i>Net Change in Fund Balances</i>	116,175
<i>Fund Balances Beginning of Year</i>	1,337,778
<i>Fund Balances End of Year</i>	<u><u>\$1,453,953</u></u>

See accompanying notes to the basic financial statements

North East Ohio Network

Mahoning County, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012*

Net Change in Fund Balances - Total Governmental Funds		\$116,175
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Outlay	26,173	
Current Year Depreciation	<u>(15,811)</u>	
Total		10,362
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>5,278</u>
<i>Change in Net Position of Governmental Activities</i>		<u><u>\$131,815</u></u>

See accompanying notes to the basic financial statements

North East Ohio Network
Mahoning County, Ohio

Statement of Fiduciary Net Position
Agency Funds
December 31, 2012

	<u>Agency</u>
Assets	
Cash and Investments	\$28,772,313
Receivables:	
Interest	<u>23,831</u>
<i>Total Assets</i>	<u><u>\$28,796,144</u></u>
Liabilities	
Due to Other Governments	<u><u>\$28,796,144</u></u>

See accompanying notes to the basic financial statements

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

Note 1- Description of the Entity

North East Ohio Network (the Organization) is a regional council of governments formed pursuant to Chapter 167 of the Ohio Revised Code by member county boards of developmental disabilities. The member counties are Ashtabula, Columbiana, Cuyahoga, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, and Wayne. The purpose of the Organization is to better serve and benefit persons with disabilities in each member county by coordinating the powers and duties of the member boards. Substantially all revenues are received from the member boards or from the State of Ohio on their behalf.

Note 2- Summary of Significant Accounting Policies

The financial statements of the Organization 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 more significant of the Organization's accounting policies are described below.

A. Fund Accounting

The accounts of the Organization are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

Governmental Funds: Governmental funds are used to account for the Organization's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). The Organization considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

General Fund: This fund is the Organization's primary operating fund. It accounts for all financial resources of the Organization, except those required to be accounted for in another fund.

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

B. Basis of Presentation and Measurement Focus

For financial statement reporting purposes the Organization is considered a single purpose governmental entity. The Organization's basic financial statements consist of fund financial statements presented with adjustments reconciling to government-wide financial statements.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the Organization as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each program of the Organization's governmental activities. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements - Fund financial statements report detailed information about the Organization. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fund Balance - The Organization reports classifications of fund balance based on the extent to which the Organization is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Organization's highest level of decision-making authority, the Board of Trustees.

Assigned - amounts that are constrained by the Organization's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the Organization's formal purchasing procedure by the Executive Director. Through the Organization's purchasing policy, the Board of Trustees has given the Executive Director the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

The Organization applies restricted resources first when an expense is incurred for purposes for which restricted and unrestricted fund balance is available. The Organization considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Agency funds do not report a measurement focus as they do not report operations.

Deferred Revenue: Deferred revenue represents revenue earned but not available at year end. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Expenditure Recognition: The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs such as depreciation and amortization are not recognized in the governmental funds.

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

Investments: Investments, primarily certificates of deposit, government securities, preferred stock, and corporate bonds, are stated at fair value.

Capital Assets: Capital assets include furniture, fixtures, and equipment owned by the Organization. These assets are reported in the government-wide financial statements. The Organization defines capital assets as assets with an initial, individual cost of \$2,000 or more. Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value on the dates received.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The costs 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. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation is computed using the straight-line method over the useful lives of 5 to 7 years.

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

Budgetary Information: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund. The budget is prepared by the Executive Director, Finance Director, and the Program Director and approved by the Board of North East Ohio Network. As this is not required by State statute, the budget is not considered to be legally adopted. Budget amounts may be amended periodically by the Board.

State Cost Report Recovery or Repayment: Revenue from the State of Ohio for certain services provided by the Organization is based on tentative payment rates. Initial reimbursement or repayment is determined by the State after submission of annual cost reports. This initial determination is then subject to audit by the State. Revenue and expense is adjusted as required in subsequent periods based on final settlements. Settlements for calendar years through 2007 have been received or repaid. Although cost reports have been filed for 2010, 2009, and 2008, no determination has been made by the State of Ohio as to reimbursement or repayment.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

Net Position: Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Organization or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

The Organization applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Note 3 – Change in Accounting Principle

For 2012, the Organization has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Agreements”, Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements”, Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53” Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the Organization’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the Organization’s financial statements however it slightly modified note disclosure.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the Organization’s 2012 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the Organization’s financial statements.

Note 4- Cash and Investments

In accordance with Ohio Revised Code Section 167.04, the Organization invests in those instruments authorized by its written investment policy filed with the Auditor of the State which include (1) Bonds, notes, or other obligations guaranteed by the United States; (2) Bonds, notes, or other obligations issued by any Federal government agency; (3) Repurchase agreements under the terms of which agreement the Organization purchases and the seller agrees unconditionally to repurchase any of the securities listed in (1) or (2); (4) Bonds and other obligations of the State of Ohio; (5) No load money market mutual funds and (6) Investment grade corporate or commercial paper including preferred stock (up to a maximum of 25% of total investment assets).

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

Cash and investments as of December 31, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Position and Governmental Fund Balance Sheet

Cash and Cash Equivalents	\$	1,092,370
Investments		338,265
Statement of Fiduciary Net Position - Agency Funds		28,772,313
Total Cash and Investments		\$ 30,202,948

Cash and investments as of December 31, 2012 consisted of the following:

PNC Money Fund	\$	23,632,039
Investments		6,570,909
Total Cash and Investments		\$ 30,202,948

Deposits: At December 31, 2012, the book amount of the Organization's deposits in the PNC account was \$23,632,039, and the cash balance per the PNC statement was \$23,748,298.

All deposits and investments are held in PNC accounts as an investment advisor in the name of the Organization or jointly in the name of the Organization and the individual county. All amounts held by PNC are covered by Federal Deposit Insurance, Securities Investor Protection Corporation (SIPC) insurance, Excess SIPC coverage provided by surety bond, or financial guaranty insurance.

Investments:

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

Investment Type	Total Fair Value	Less than 1 year	1-5 years
United States Treasury Notes	\$ 2,753,750	\$ 2,753,750	\$ -
United States Agencies	\$ 3,817,159	\$ 1,176,886	\$ 2,640,273
Total	\$ 6,570,909	\$ 3,930,636	\$ 2,640,273

Interest Rate Risk: It is the Organization's investment policy to limit investment maturities to five years.

Credit Rate Risk: The PNC Institutional Fund is a money market fund with a rating of AAA from Moody's.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

The following summarizes credit ratings for the Organization's investments in U.S. agencies not explicitly guaranteed by the U.S. government:

<u>U.S. Agencies</u>	<u>Rating</u>	<u>Amount</u>
Federal Home Loan Mtg. Corporation	AAA	\$ 921,579
Federal National Mortgage Association	AAA	2,895,580
		<u>\$ 3,817,159</u>
 US Treasury Notes	 AAA	 <u>\$ 2,753,750</u>

Concentration of Credit Risk: The Organization places no limit on the amount the Organization may invest in any one issuer. More than 5% of the Organization's cash and investments are invested in US Treasury Notes, Federal National Mortgage Association, Federal Home Loan. These investments are 8.52%, 9.58% and 3.05%, respectively; of the Organization's total cash and investments at December 31, 2012. In addition, PNC Institutional Fund is 78.24% of cash and investments at December 31, 2012.

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities: Capital assets being depreciated:

	Beginning Balance 1/1/12	Additions	Deletions	Ending Balance 12/31/12
Furniture & Fixtures	\$4,012	0		\$4,012
Office Equip.	126,890	26,173	0	153,063
	<u>130,902</u>	<u>26,173</u>	<u>0</u>	<u>157,075</u>
<i>Less Accumulated Depreciation for:</i>				
A/D F&F	3,695	72		3,767
A/D Office Equip	76,314	15,739	0	92,053
Total Depreciation	<u>\$80,009</u>	<u>\$15,811</u>	<u>\$0</u>	<u>\$95,820</u>

Governmental Activities

Capital Assets, Net \$ 61,255

Depreciation expense charged to governmental activities totaled \$15,811 for 2012.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

Note 6 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Organization participated 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 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 both 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 issue a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy: The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll.

The Organization's contribution rate for 2012 was 14.0 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees for calendar year 2012. The employer contribution rate is determined actuarially. State statute sets a maximum contribution rate for the Organization at 14.0 percent.

The Organization's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011 and 2010 were \$113,197, \$115,784 and \$101,283, respectively. 82 percent has been contributed for 2012, and one hundred percent has been contributed for 2011 and 2010. There were no contributions made to the member directed plan for 2012.

Note 7 - Other Post-Employment Benefits

Plan Description – OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy: The Ohio revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' post employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2012, the employer contribution allocated to the health care plan was 4.0 percent for calendar year 2012 of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Organization's contribution allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$45,275, \$46,311 and \$73,551 respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Note 8- Risk Management

The Organization is exposed to various risks of loss related to torts and general liability; theft of, damage to, and destruction of assets, natural disasters; errors and omissions; and injuries to employees. The Organization maintains insurance to cover these risks. There has been no significant reduction in insurance coverage from the prior years. There have been no claims or settlements since the inception of the Organization.

Effective January 1, 2009, the Organization became self-insured for their vision and dental insurance coverage. The medical coverage is eligible for reimbursement up to 100% of the deductible which is \$2,000 for single and \$6,000 for family, if a network provider is utilized. The health coverage is managed through a third party administrator which processes all claims. The Organization funds annually what the third party administrator determines. The activity is accounted for through the general fund. The program administrator held prefunded cash deposits of \$23,350 at December 31, 2012, which the Organization reports as cash with fiscal agent. A liability of \$6,788 was established based on reserves for outstanding claims at December 31, 2012, as reported by the program administrator.

**North East Ohio Network
Mahoning County, Ohio**

*Notes to the Basic Financial Statements
December 31, 2012*

The following schedule represents the changes in claims liability for the past fiscal year for the Organizations self-insurance program:

Fiscal Year	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012	\$ 4,248	\$ 22,384	\$ (19,844)	\$ 6,788

Note 9 - Commitments

Leases: The Organization rents office space under an operating lease expiring in 2014. Rent expense for 2012 was \$67,100.

Minimum annual rentals are as follows:

2013	\$59,400
2014	<u>9,900</u>
Total	<u><u>\$69,300</u></u>

North East Ohio Network
Mahoning County, Ohio

*Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Waiver Administration	\$302,600	\$302,600	\$323,899	\$21,299
Family Support Services Admin. Fee	323,000	\$323,000	392,589	\$69,589
Major Unusual Incidents Fee	420,000	\$420,000	395,477	(\$24,523)
Provider Compliance	75,000	\$75,000	105,451	\$30,451
Quality Assurance	419,400	\$419,400	363,518	(\$55,882)
Provider Training	44,000	\$44,000	54,014	\$10,014
Financial Services/Investment Earnings	77,460	\$77,460	10,429	(\$67,031)
MAC	249,000	\$249,000	316,646	(\$67,646)
Other	104,577	\$104,577	129,535	(\$24,958)
<i>Total Revenues</i>	<u>2,015,037</u>	<u>2,015,037</u>	<u>2,091,558</u>	<u>(108,687)</u>
Expenditures				
Current:				
Wages	1,204,016	1,204,016	1,083,335	120,681
Employee Benefits	420,448	420,448	430,772	(10,324)
Payroll Taxes	17,458	17,458	15,395	2,063
Professional Fees	70,130	70,130	110,649	(40,519)
Office Expense	40,700	40,700	52,303	(11,603)
Rent	67,100	67,100	67,100	0
Software	23,600	23,600	65,964	(42,364)
Telephone	23,000	23,000	24,677	(1,677)
Postage	12,000	12,000	11,668	332
Travel and Meals	84,000	84,000	85,428	(1,428)
Seminars and Training	10,000	10,000	7,906	2,094
Miscellaneous	19,400	19,400	18,882	518
Capital Outlay	23,000	23,000	26,173	(3,173)
<i>Total Expenditures</i>	<u>2,014,852</u>	<u>2,014,852</u>	<u>2,000,252</u>	<u>14,600</u>
<i>Net Change in Fund Balance</i>	185	185	91,306	(94,087)
<i>Fund Balance Beginning of Year</i>	1,088,223	1,088,223	1,088,223	0
<i>Fund Balance End of Year</i>	<u>\$1,088,408</u>	<u>\$1,088,408</u>	<u>\$1,179,529</u>	<u>\$91,121</u>

North East Ohio Network
Schedule of Funds Administered for County Boards
Year Ended December 31, 2012

	Ashtabula	Columbiana	Cuyahoga	Geauga	Lake	Lorain	Mahoning	Medina	Portage	Richland	Stark	Summit	Wayne	Total
Cash and investment balance- Cost-- January 1, 2012	\$ 1,058,012	\$ 2,846,724	\$ 7,865,524	\$ 39,163	\$ 7,822,228	\$ 3,458,355	\$ 6,082,476	\$ 837,223	\$ 3,571,976	\$ 6,318,786	\$ 3,990,111	\$ 2,020,779	\$ 91,411	\$ 46,002,768
Funds Received	2,355,960	4,788,958	3,153,127	1,752	9,853,471	4,783,386	12,217,771	4,547,836	8,119,613	5,647,285	3,665,530	8,258,278	89,406	67,482,373
Investment Earnings	3,223	24,279	57,079	-	59,158	668	19,287	4,473	33,879	68,403	54,047	1,157	40	325,693
Program Expenses	(2,484,876)	(5,115,708)	(10,691,134)	(40,915)	(10,269,142)	(7,513,959)	(13,494,068)	(4,081,820)	(10,872,742)	(7,353,234)	(6,468,159)	(6,565,576)	(106,006)	(85,057,339)
Bank Service Charges	(85)	(44)	(181)	-	(430)	(123)	(35)	(70)	(40)	(35)	(168)	(35)	(60)	(1,306)
Cash and investment balance- Cost - December 31, 2012	932,234	2,544,209	384,415	-	7,465,285	728,327	4,825,431	1,307,642	852,686	4,681,205	1,241,361	3,714,603	74,791	28,752,189
Unrealized Gain	-	-	-	-	6,156	-	-	-	-	10,638	3,330	-	-	20,124
Cash and investment balance- Market-- December 31, 2012	\$ 932,234	\$ 2,544,209	\$ 384,415	\$ -	\$ 7,471,441	\$ 728,327	\$ 4,825,431	\$ 1,307,642	\$ 852,686	\$ 4,691,843	\$ 1,244,691	\$ 3,714,603	\$ 74,791	\$ 28,772,313
Accrued Interest Receivable	\$ -	\$ -	\$ -	\$ -	\$ 7,723	\$ -	\$ -	\$ -	\$ -	\$ 12,251	\$ 3,857	\$ -	\$ -	\$ 23,831



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**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**

North East Ohio Network
Mahoning County
5121 Mahoning Ave., Suite 102
Austintown, Ohio 44515

To the Board of Trustees

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund (General) and the remaining fund information of the North East Ohio Network, (the Organization) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated September 13, 2013, wherein we noted the Organization implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Canter & Associates
Poland, Ohio

September 13, 2013

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Dave Yost • Auditor of State

NORTH EAST OHIO NETWORK

MAHONING 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
NOVEMBER 19, 2013**