

LIEN FORWARD OHIO
(A COMPONENT UNIT OF MAHONING COUNTY)

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

Governing Board
Lien Forward Ohio
20 W Federal Place, Suite M-5A
Youngstown, Ohio 44503

We have reviewed the *Independent Auditors' Report* of Lien Forward Ohio, Mahoning County, prepared by Cohen & Company, for the audit period January 1, 2006 through December 31, 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. Lien Forward Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 21, 2007

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LIEN FORWARD OHIO
(A COMPONENT UNIT OF MAHONING COUNTY)

DECEMBER 31, 2006

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GOVERNING BOARD OF LIEN FORWARD OHIO

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and the major fund (General) of Lien Forward Ohio (a component unit of Mahoning County) as of and for the year ended December 31, 2006, which collectively comprise Lien Forward Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 and the major fund of Lien Forward Ohio as of December 31, 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.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2007 on our consideration of Lien Forward Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cohen & Company

November 2, 2007
Youngstown, Ohio

***Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited***

This discussion and analysis of Lien Forward Ohio's financial performance provides an overall review of the Organization's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the Organization's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the Organization's financial performance.

Financial Highlights

Key financial highlights for 2006 which was the first year of operations are as follows:

- The assets of the Organization exceeded its liabilities at the close of the year ended December 31, 2006, by \$255,949 (net assets).
- At the end of the current fiscal year, the Organization's governmental fund reported an ending fund balance of \$244,365, all of which is available to fund future operations.
- The Organization received \$300,000 from the Mahoning County Treasurer as start-up funds.
- Personnel and contractual expenses represent 79% of total operating expenses.

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 the Organization as a financial whole or as an entire operating entity.

The statements provide information about the activities of the whole Organization reconciled with adjusting entries to the Organization's fund financial statements.

Reporting Lien Forward Ohio as a Whole

While this document contains information about the funds used by the Organization to provide services, the view of the Organization as a whole looks at all financial transactions and asks the question, "How did we do financially during 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 the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The government-wide statements with adjustments reconciling to the fund financial statements can be found on pages 7 – 8 of this report.

***Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited***

Reporting the Organization's 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. Fund financial reports provide detailed information about the Organization's major fund which is the general fund which encompasses all of the Organization's 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.

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 basic financial statements begin on page 9 of this report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets exceeded liabilities by \$255,949 at December 31, 2006. Of total net assets \$244,365 are unrestricted as of December 31, 2006.

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Government-wide Financial Analysis

Table 1 provides a summary of the Organization's net assets for 2006.

Table 1	
Net Assets	
(In Thousands)	
	2006
	Governmental
	Activities
Assets	
Cash and Investments	\$ 248
Other Assets	7
Capital Assets, Net	12
Other Assets	1
<i>Total Assets</i>	<u>268</u>
Liabilities	
Current Liabilities	<u>12</u>
Net Assets	
Invested in Capital	12
Unrestricted	244
<i>Total Net Assets</i>	<u>\$ 256</u>

Table 2 below provides a summary of the changes in net assets for 2006.

Table 2	
Changes in Net Assets	
(In Thousands)	
	2006
	Governmental
	Activities
Revenues	
<i>Revenues</i>	\$ 363
Expenditures	
<i>General</i>	<u>107</u>
<i>Increase in Net Assets</i>	<u>\$ 256</u>

Wages and related benefits and taxes accounted for 44% of total expenses in 2006.

Revenues from Mahoning County included start-up funds of \$300,000 and donated payroll and related benefits of \$43,443 accounting for 95% of revenues in 2006.

***Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited***

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, 2006, the unreserved fund balance of the general fund was \$244,365. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. At December 31, 2006, unreserved fund balance represents approximately 200% of the total general fund expenditures.

Capital Assets

Capital Assets: The Organization's investment in capital assets for its governmental activities as of December 31, 2006, amounts to approximately \$12,000 (net of accumulated depreciation). This investment in capital assets includes software, furniture and equipment. Note 6 provides capital asset activity during 2006.

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. Lien Forward Ohio has been organized to provide services on a cost efficient basis to residents of Mahoning County.

Contacting Lien Forward Ohio'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 Mrs. Debora Flora, Executive Director, Lien Forward Ohio, 20 W Federal Place, Suite M-5A, Youngstown, Ohio 44503. 330-259-1040.

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

DECEMBER 31, 2006

	General Fund	Adjustments (Note 3)	Statement of Net Assets
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 247,694		\$ 247,694
Accounts receivable	5,299		5,299
Prepaid insurance	1,980		1,980
Capital assets, net of accumulated depreciation		\$ 11,584	11,584
Other assets	<u>1,361</u>		<u>1,361</u>
Total assets	<u>\$ 256,334</u>	<u>11,584</u>	<u>267,918</u>
LIABILITIES			
Accrued wages and benefits	\$ 5,299		5,299
Accrued professional fees	<u>6,670</u>		<u>6,670</u>
Total liabilities	<u>11,969</u>		<u>11,969</u>
FUND BALANCES / NET ASSETS			
Fund balance - Unreserved	<u>244,365</u>	<u>(244,365)</u>	
Total liabilities and fund balance	<u>\$ 256,334</u>		
Net Assets			
Invested in capital assets		11,584	11,584
Unrestricted		<u>244,365</u>	<u>244,365</u>
Total net assets		<u>\$ 255,949</u>	<u>\$ 255,949</u>

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments (Note 3)	Statement of Activities
REVENUES:			
Intergovernmental revenue	\$ 300,000		\$ 300,000
Charges for services	10		10
Donated goods, services, facilities	52,864		52,864
Interest income	9,874		9,874
Total revenues	362,748		362,748
EXPENDITURES / EXPENSES:			
Current:			
Personnel expenses	47,068		47,068
Contractual services	37,355		37,355
Office expense	2,750		2,750
Occupancy	12,233		12,233
Advertising	4,761		4,761
Depreciation		\$ 2,248	2,248
Other expenses	384		384
Capital outlay	13,832	(13,832)	
Total expenditures / expenses	118,383	(11,584)	106,799
EXCESS OF REVENUES OVER EXPENDITURES	244,365	(244,365)	
CHANGE IN NET ASSETS		255,949	255,949
FUND BALANCE/NET ASSETS - END OF YEAR	\$ 244,365	\$ 11,584	\$ 255,949

The accompanying notes are an integral part of these statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ENTITY

Lien Forward Ohio (the Organization) is a regional council of governments formed in November 2005 pursuant to Chapter 167 of the Ohio Revised Code by a partnership between Mahoning County and the City of Youngstown. The Governing Board includes representatives from those governments. The Organization is considered a component unit of Mahoning County. The purpose of the Organization is to return vacant, tax-delinquent land to productive use. All revenues are received from Mahoning County, the City of Youngstown, or the residents of Mahoning County.

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 Organization also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Organization's accounting policies are described below.

Basis of Presentation

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Organization.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. The financial statements include adjustments with explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS

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 number of funds are maintained consistent with legal and managerial requirements.

The Organization has the following fund type:

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.

The major (and only) governmental fund is the general fund which is the Organization's primary operating fund. It accounts for all financial resources of the Organization.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, investment earnings and fees received from other governments are revenue sources that are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period).

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$500 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

Beginning in 2007, annual budgets will be adopted for the general fund. The budget is prepared by the Executive Director and approved by the Governing Board of Lien Forward Ohio. As this is not required by State statute, the budget is not considered to be legally adopted. The appropriate budget is prepared by fund and function. Budget amounts may be amended periodically by the Board.

Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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 assets are available.

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. ADJUSTMENTS TO RECONCILE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The financial statements provide adjustments to reconcile from the fund financial statements to the government-wide financial statements. The details of these adjustments are as follows:

Statement of Net Assets and Governmental Fund Balance

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund	\$ <u>11,584</u>
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Statement of Activities and Governmental Fund of Revenues, Expenditures and Changes in Fund Balance

Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense

Depreciation expense	\$ <u>2,248</u>
Capital outlay	\$ <u>13,832</u>

4. TRANSACTIONS WITH MAHONING COUNTY

During 2006, Mahoning County (the County) appropriated \$300,000 to the Organization which represents the fees paid to the County by tax lien certificate purchases pursuant to Section 5721.33(A) of the Ohio Revised Code and investment earnings thereon. In addition the County paid for all payroll and benefits of the Organization's employees through January 31, 2007.

5. CASH AND CASH EQUIVALENTS

The investments and deposits of the Organization 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 the Organization to invest monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Organization 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 purchase 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 the Organization's name.

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CASH AND CASH EQUIVALENTS (continued)

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Organization'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.

All deposits are held in checking and savings bank accounts in the name of the Organization at Sky Bank. At December 31, 2006, the book amount of the Organization's deposits in the bank accounts was \$248,207 and the cash balance per the bank statements was \$247,694. Of the bank balance, \$127,030 was covered by federal depository insurance and \$121,177 was collateralized by a pool of securities maintained by the financial institution but not in the Organization's name.

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance <u>01/01/06</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/06</u>
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Office equipment	\$	\$ 6,250	\$	\$ 6,250
Furniture and fixtures		2,102		2,102
Leasehold Improvements		5,480		5,480
<i>Total capital assets being depreciated</i>	<u> </u>	<u>13,832</u>	<u> </u>	<u>13,832</u>
<i>Less accumulated depreciation for:</i>				
Office equipment		985		985
Furniture and fixtures		350		350
Leasehold Improvements		913		913
<i>Total accumulated depreciation</i>	<u> </u>	<u>2,248</u>	<u> </u>	<u>2,248</u>
<i>Governmental activities capital assets, net</i>	<u>\$</u>	<u>\$ 11,584</u>	<u>\$</u>	<u>\$ 11,584</u>

Depreciation expense charged to governmental activities totaled \$2,248 for 2006.

NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS

OPERS

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. **The Traditional Pension Plan** – A cost sharing, multiple-employer defined benefit pension plan.
2. **The Member-Directed Plan** – A defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, and investment earnings.
3. **The Combined Plan** – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investments of which are self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

All Lien Forward Ohio full-time employees participate in the Traditional Pension Plan. OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for members and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. The 2006 member contribution rate was 9%. The 2006 employer contribution rate was 13.7% of covered payroll; 9.2% was the portion used to fund pension obligations for 2006. The Organization's required contribution for pension obligations to OPERS for the year ended December 31, 2006 was \$2,193. At December 31, 2006, 76% had been contributed for 2006. In 2006 and through January 2007, OPERS contributions were made by Mahoning County on behalf of the Organization.

NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Other Post-Employment Benefits

The Ohio Public Employees Retirement System also provides 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 the Traditional Pension and the Combined Plans. In order to qualify for postretirement health care coverage, age-and-service retirees 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. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2006, the employer rate was 13.7% of covered payroll; 4.5% was the portion used to fund healthcare. The portion of the Organization's 2006 contributions actually used to fund postretirement benefits was \$1,073. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The OPEB is advanced-funded on an actuarially determined basis using an entry-age normal actuarial cost method of valuation to determine the present value of the OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

Significant assumptions from the last actuarial review, performed as of December 31, 2005 (latest information available), also include: a rate of return on investments of 6.5%; annual salary increases of 4.00% compounded annually and 0.50% to 6.30% for pay increases above and beyond the 4.00%. The increase in salary assumes no change in the number of active employees. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 6.00% for the next nine years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804. The net assets available for OPEB at December 31, 2005 (the latest information available) was \$11.1 billion and the actuarial accrued liability, based on the actuarial cost method used, was \$31.3 billion, leaving an unfunded actuarial liability of \$20.2 billion.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to rising health care costs. In addition to the HCPP, OPERS took additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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 have been no claims or settlements since the inception of the Organization.

9. COMMITMENT

Lease

The Organization rents office space under an operating lease with the City of Youngstown, expiring through 2011. The lease calls for an annual rent payment of \$1 plus an allocation of expenses not to exceed \$3,250 per year. The fair value of the rent for 2006 of \$9,000 was recorded as donated services.

GOVERNING BOARD OF LIEN FORWARD OHIO

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Lien Forward Ohio (the Organization) as of and for the year ended December 31, 2006, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 2, 2007. 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 the Organization's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

We noted certain matters that we reported to management of the Organization in a separate letter dated November 2, 2007.

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

Cohen & Company

November 2, 2007
Youngstown, Ohio



Mary Taylor, CPA
Auditor of State

LIEN FORWARD OHIO

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
DECEMBER 6, 2007**