

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE YEAR ENDED
DECEMBER 31, 2011***



Dave Yost • Auditor of State

Board of Directors
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, Ohio 43050

We have reviewed the *Independent Auditor's Report* of the Mid East Ohio Regional Council, Knox County, prepared by Dale Saylor and Associates, for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 28, 2012

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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
FINANCIAL STATEMENTS	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	10
Statement of Cash Flows – Proprietary Fund.....	11
Notes to the Basic Financial Statements	12-22
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23-24

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, OH 43050

We have audited the accompanying financial statements of Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the Mid East Ohio Regional Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid East Ohio Regional Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid East Ohio Regional Council as of December 31, 2011, and the changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, on our consideration of the Mid East Ohio Regional Council's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

~continued~

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INDEPENDENT AUDITOR'S REPORT,
continued

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dale Saylor & Associates

Dublin, Ohio

June 15, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The management's discussion and analysis of Mid East Ohio Regional Council's (the "Council") financial performance provides an overall review of the Council's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the Council's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for the year of 2011 are as follows:

- Net assets increased \$738,829, which represents a 4.32% increase from the year ended December 31, 2010.
- The Council's operating revenues totaled \$7,003,634 for the year ended December 31, 2011. Operating expenses amounted to \$6,201,494.

Using the Basic Financial Statements

Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. Since the Council only uses one fund for its operations, the entity wide and fund presentation information are the same.

The statement of net assets and statement of revenues, expenses and changes in net assets answers the question, "How did we do financially during 2011?" These statements include all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-22 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The table below provides a comparative analysis of the Council's net assets for the years ended December 31, 2011 and 2010, respectively.

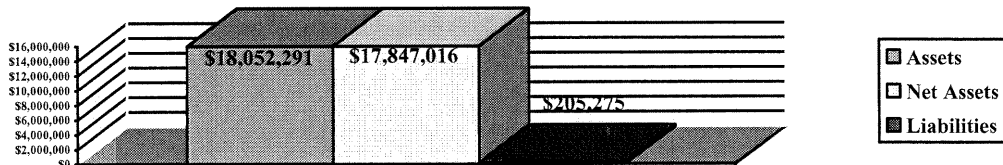
Net Assets		
	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
<u>Assets</u>		
Current assets	\$ 17,519,005	\$ 17,331,710
Capital assets	<u>533,286</u>	<u>524,946</u>
Total assets	<u>18,052,291</u>	<u>17,856,656</u>
<u>Liabilities</u>		
Current liabilities	<u>205,275</u>	<u>748,469</u>
Total liabilities	<u>205,275</u>	<u>748,469</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	533,286	524,946
Restricted	277,392	277,392
Unrestricted	<u>17,036,338</u>	<u>16,305,849</u>
Total net assets	\$ <u>17,847,016</u>	\$ <u>17,108,187</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the Council's assets exceeded liabilities by \$17,847,016.

A portion of the Council's net assets, \$277,392, represents resources that are subject to external restriction on how they may be used. The Council has \$533,286 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net assets of \$17,036,338 may be used to meet the Council's ongoing activities.

The tables below provide a comparison of the Council's assets, liabilities and net assets for the years ended December 31, 2011 and 2010, respectively.

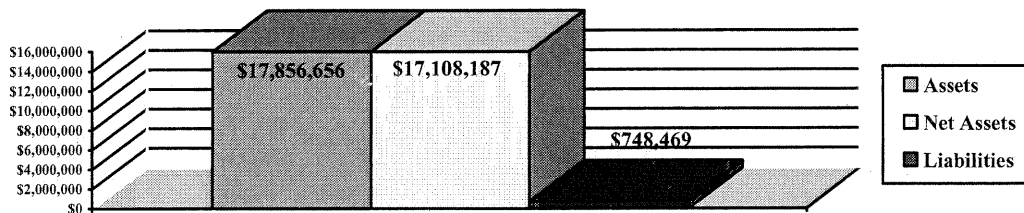
December 31, 2011



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

December 31, 2010



The table below shows a comparison of the change in net assets for the years ended December 31, 2011 and December 31, 2010.

Change in Net Assets

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
<u>Operating Revenues</u>		
Intergovernmental - Intermediate	\$ 2,408,773	\$ 2,154,195
Intergovernmental - State	3,298,854	4,075,022
Intergovernmental - Federal	1,167,865	251,617
Other local revenues	90,625	64,006
Miscellaneous	37,517	92,295
<u>Nonoperating Revenues</u>		
Earnings on investments	89,553	56,510
Unrealized gain (loss) on investments	<u>(6,401)</u>	<u>(10,943)</u>
Total revenues	<u>\$ 7,086,786</u>	<u>\$ 6,682,702</u>

Miscellaneous revenue is largely comprised of reimbursements from supported living providers. This figure is substantially less for the year ended December 31, 2011 as compared to the year ended December 31, 2010 due to a \$65,000 repayment from one provider during the year ended December 31, 2010.

Earnings on investments experienced a higher return in 2011, which was primarily caused by a market adjustment of the poor economy in 2010.

The Council purchased several investments during fiscal years 2011 and 2010 that are recorded at fair market value. As a result of decreasing value during the period, the Council recorded an unrealized loss on investments as of December 31, 2011 and 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

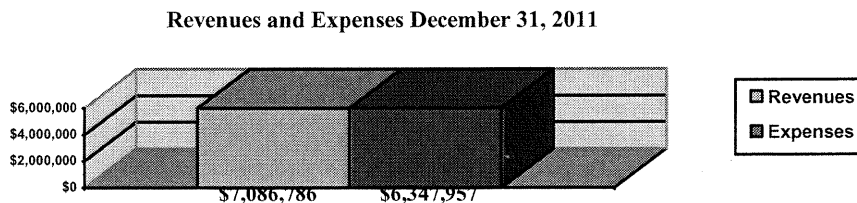
Change in Net Assets, continued

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
<u>Operating Expenses</u>		
Salaries and benefits	\$ 1,370,996	\$ 1,408,019
Provider services	556,787	598,897
Rent	171,033	150,750
County expenses	40,186	142,590
Other supported living	527,278	527,905
Room and board	108,964	86,651
IO Waiver	1,724,477	1,632,700
Travel and training	129,844	139,152
Professional expense	364,934	247,545
Administrative overhead	106,916	220,240
Equipment	50,562	12,723
Depreciation	3,393	7,699
Program expense administrative overhead	173,860	86,262
Program administration	838,958	-
State administration	33,306	13,454
<u>Nonoperating Expenses</u>		
Investment expenses	4,560	4,248
Return of equity to County	<u>141,903</u>	<u>-</u>
Total expenses	<u>6,347,957</u>	<u>5,278,835</u>
Changes in net assets	738,829	1,403,867
Net assets beginning of year	<u>17,108,187</u>	<u>15,704,320</u>
Net assets end of year	\$ <u>17,847,016</u>	\$ <u>17,108,187</u>

Activities

The Council's net assets increased \$738,829. Revenues of \$7,086,786 exceeded expenses of \$6,347,957.

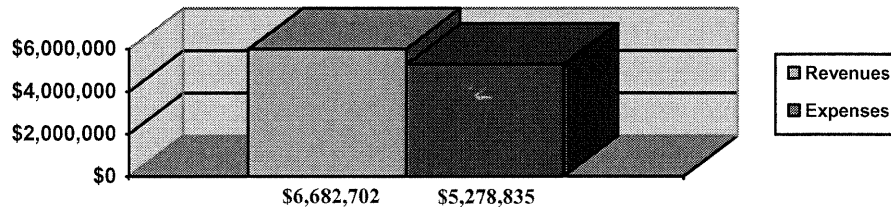
The graphs below compare the Council's activities revenue and expenses for the years ended December 31, 2011 and December 31, 2010.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Revenues and Expenses December 31, 2010



Budgeting Highlights

Although the Council is not required to prepare a budget according to Ohio law, an annual budget is completed for management purposes. Budget information is reported to the Council members.

Capital Assets

As of December 31, 2011, the Council had \$533,286 invested in capital assets, net of accumulated depreciation. This amount consisted of \$514,386 of net depreciable capital assets and \$18,900 of land, which were reported on the statement of net assets. The following table shows December 31, 2011 balances compared to December 31, 2010:

Capital Assets, Net of Depreciation

	<u>Business-Type Activities</u>	
	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>
Building	\$ 501,116	\$ 465,544
Building improvements	1,080	-
Land	18,900	18,900
Furniture and equipment	<u>12,190</u>	<u>40,502</u>
	<u>\$ 533,286</u>	<u>\$ 524,946</u>

The overall increase in capital assets of \$8,340 is due to a capital outlay expense of \$56,510 less net capital disposals of \$44,777 exceeding depreciation of \$3,393.

The capital outlay expense of \$56,510 consists primarily of renovations to the building that was scheduled to serve as the new offices for the Council starting in 2010. Due to a fire two weeks prior to completion, the building was not placed in service until late 2011. This is discussed in more detail in Note 2.

See Note 5 to the basic financial statements for additional information on the Council's capital assets.

Current Financial Related Activities

The Council's budgetary process continues to consist of a central agency-wide budget segmented with four departments. Department budgets are monitored through monthly reports to each responsible Director who uses the data to closely review expenses. The MEORC Board also receives reports of the budget to actual status.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The updated strategic objections from 2010 continue in 2011 to include the following approved goals: MEORC will increase its diversity of products; MEORC will be a highly efficient and effective quality driven agency as measured by performance excellence criteria; all stakeholders will value MEORC services as measured by stakeholder satisfaction surveys and MEORC will increase its diversity of customers.

Throughout 2011, MEORC continued to increase the diversity of customers as a result of the agency goals. Some of the new customers served in 2011 include: Authorized Representative Payee services in Scioto and Athens Counties; Accreditation Readiness in Stark County; Nurse Quality Assurance Reviews in Jackson County; Business Management Services in Hocking County and The Employment Connection; Certification trainings and process improvement facilitation with providers in the DD field; Nursing consultation services for providers and Data Services in Perry and Muskingum Counties. The Council continues to explore opportunities to improve and enhance the ability to generate revenue to offset expenses in the provision of services. The Council continues to seek offsets from available reimbursement systems such as Medicaid Administrative Claiming (MAC) and Targeted Case Management (TCM) funding. In 2011, back cast payments due from the MAC reimbursement system (for January 2007 through September 2011) were received from the Ohio Department of Developmental Disabilities (DODD).

The current fiscal position of the Council is healthy; however, leadership is mindful of the current environment impacting all governmental entities. In late 2011, the Council and their Board of Directors committed to strategic planning to take place in 2012. The strategic planning effort and key outcomes envisioned will enable MEORC's Leadership Team to leverage their experience, data and capabilities, in order to inform and respond to leadership and direction provided by the Council's members.

In mid-2011, an informal opinion from the Ohio Attorney General questioned the approach of Councils of Governments holding and investing member funds. At that time, the decision was made by the Council and members to suspend reinvesting any maturing investment instruments until a formal opinion was available. As of the end of 2011 the formal opinion had not yet been issued by the Attorney General. As a result of this situation, the interest income for 2011 is substantially lower than previous years.

Building Damage

In late September 2011, fire damages that occurred in early March 2010 were fully repaired on the building located at 1 Avalon Road. The office and training space were occupied at this time. Content, relocation and loss of business expenses were still outstanding at year end and pending approval by the insurance company. There will likely be further adjustments in 2012 for expenses and insurance receivables.

Contacting the Council's Financial Management

This financial report is designed to provide our Council members with a general overview of the Council's finances and show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Cathy Henthorn, Director of Financial Operations, Mid East Ohio Regional Council, 1 Avalon Road, Mt. Vernon, Ohio 43050. You may call her at (740) 397-4733 ext 102.

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

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Assets:	
Equity in cash and cash equivalents	\$ 11,234,983
Receivables:	
Due from other governments	204,093
Other miscellaneous	111,729
Prepayments	9,538
Investments	5,958,662
Capital assets:	
Depreciable capital assets, net	514,386
Land	<u>18,900</u>
Total assets	\$ <u>18,052,291</u>

Liabilities:	
Accounts payable	\$ 165,495
Accrued payroll and benefits	<u>39,780</u>
Total liabilities	<u>205,275</u>

Net Assets:	
Invested in capital assets, net of related debt	533,286
Restricted for:	
Supported living	277,392
Unrestricted	<u>17,036,338</u>
Total net assets	<u>17,847,016</u>
Total liabilities and net assets	\$ <u>18,052,291</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues:

Intergovernmental - Intermediate	\$ 2,408,773
Intergovernmental - State	3,298,854
Intergovernmental - Federal	1,167,865
Other local revenues	90,625
Miscellaneous	<u>37,517</u>
Total revenues	<u>7,003,634</u>

Operating Expenses:

Salaries and benefits	1,370,996
Provider services	556,787
Rent	171,033
County expense	40,186
Other supported living	527,278
Room and board	108,964
IO waiver	1,724,477
Travel and training	129,844
Professional expense	364,934
Administrative overhead	106,916
Equipment	50,562
Depreciation	3,393
Program expense administrative overhead	173,860
Program administration	838,958
State administration	<u>33,306</u>
Total expenses	<u>6,201,494</u>

Operating income	<u>802,140</u>
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Nonoperating revenues and (expenses):

Investment earnings	89,553
Unrealized gain (loss) on investments	(6,401)
Investment expenses	(4,560)
Return of equity to County	<u>(141,903)</u>
Total nonoperating revenues and (expenses)	<u>(63,311)</u>

Change in net assets	738,829
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Net assets at beginning of year	<u>17,108,187</u>
Net assets at end of year	<u>\$ 17,847,016</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:	
Cash received from operations	\$ 7,439,239
Cash payments for operations	<u>(6,731,445)</u>
Net cash provided by operating activities	<u>707,794</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>56,510</u>
Net cash provided by capital and related financing activities	<u>56,510</u>
Cash flows from investing activities:	
Purchase of investments	(3,000,000)
Sale of investments	7,092,590
Investment earnings	89,553
Investment expenses	<u>(4,560)</u>
Net cash provided by investing activities	<u>4,177,583</u>
Net increase in cash and cash equivalents	4,941,887
Cash and cash equivalents at beginning of year	<u>6,293,096</u>
Cash and cash equivalents at end of year	<u>\$ 11,234,983</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 802,140
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,393
Changes in assets and liabilities:	
Decrease in amounts due from other governments	464,895
Increase in other miscellaneous receivables	(29,290)
Decrease in prepayments	9,850
Decrease in accounts payable	(182,643)
Decrease in deferred insurance settlement	(313,666)
Decrease in accrued payroll and benefits	<u>(46,885)</u>
Net cash provided by operating activities	<u>\$ 707,794</u>

See accompanying notes to the basic financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE COUNCIL

Mid East Ohio Regional Council (the "Council") is a council of governments created under the authority of Chapter 167 of the Ohio Revised Code. Eighteen county Boards of Developmental Disabilities are participants in an agreement that creates and governs the Council. The Council may not exceed the scope of the authority possessed by its member organizations.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Fund Accounting

The Council uses a single fund to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Council activities or functions.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

PROPRIETARY FUNDS

A proprietary fund is used to account for the Council's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds. The Council does not have internal service funds.

Enterprise Funds - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Council's only enterprise fund is the following:

Operations Fund - This fund accounts for the operation and administration of services provided by the Council's departments including business, quality, investigative services and administrative overhead.

C. Basis of Presentation and Measurement Focus

The Council's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Council uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its proprietary activities.

D. Cash and Cash Equivalents

Cash received by the Council is presented as "Equity in cash and cash equivalents" on the statement of net assets.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The Council has invested funds in STAR Ohio. Investments are reported at fair value which is based on quoted market prices. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2011.

The Council also has invested funds in Merrill Lynch. These investments consist of Federal Home Loan Bank bonds, Federal Farm Credit Bonds, Morgan Stanley Corporate Bonds, and Federal National Mortgage Association notes and are stated at fair value. Merrill Lynch is registered with the SEC as a broker-dealer and investment advisor.

Interest earned during the year from STAR Ohio and Merrill Lynch was \$89,553.

For presentation on the statement of net assets and statement of cash flows, investments with original maturities of three months or less at the time they are purchased by the Council are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Council's investment accounts at year end is provided in Note 3.

E. Prepayments

Prepayments represent expenses which have been paid but not yet incurred under GAAP. These items are reported as an asset on the statement of net assets.

F. Capital Assets

Capital assets utilized by the Council are reported on the statement of net assets.

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Council implemented a capitalization threshold of \$5,000 as of January 1, 2008, an increase from \$500 prior to that date. Donated capital assets are recorded at their fair market values as of the date received.

The Council purchased a building and land on May 26, 2009, and expected to move in during 2010. Just as renovations were being completed, a fire broke out in the building. While the building was not completely destroyed, it had to be renovated once again. The Council moved into the building on October 1, 2011. Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Furniture/equipment	7 years
Building and improvements	40 years

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

G. Payroll and Related Fringe Benefits

The Council prepares its own payroll, fringe benefits, and OPERS contributions through the use of MyPay Solutions payroll services. However, the Council contracts with the Knox County Board of Developmental Disabilities to provide employee health insurance.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets of \$277,392 are restricted for supported living.

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

I. Estimates

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

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. The Council had no extraordinary or special items for the year ended December 31, 2011.

K. Budgetary Process

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council does pass an annual budget for the fiscal year. Modifications to the budget are approved by the Board when necessary.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Council. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Council. All revenues and expenditures not meeting these definitions are reported as nonoperating.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 3 - DEPOSITS AND INVESTMENTS

Statutes require the classification of monies held by the Council into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Council treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the Council's deposits are provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS – continued

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Council, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of the Council’s deposits was \$34,597. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2011, \$32,597 of the Council’s bank balance was covered by the Federal Deposit Insurance Corporation and \$2,000 was covered by the National Credit Union Share Insurance Fund.

B. Investments

As of December 31, 2011, the Council had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>3 months or less</u>	<u>Greater than 3 months</u>
Merrill Lynch	\$ 17,158,560	\$ 11,199,898	\$ 5,958,662
STAR Ohio	<u>488</u>	<u>488</u>	<u>-</u>
Total investments	17,159,048	11,200,386	5,958,662
NCUSIF deposits	2,000	2,000	-
FDIC deposits	<u>32,597</u>	<u>32,597</u>	<u>-</u>
Total	\$ <u>17,193,645</u>	\$ <u>11,234,983</u>	\$ <u>5,958,662</u>

The weighted average maturity of investments is 152 days. During the current period, the Council invested in Federal Home Loan Bank bonds, Federal Farm Credit Bonds, and Morgan Stanley Corporate Bonds which had maturities between 3 months and 11 months. During the year ended December 31, 2011, investments from all sources earned \$89,553 in interest and decreased in value by \$6,401.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS - continued

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Council's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAm money market rating. Standard & Poor's has assigned Merrill Lynch an A credit rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency security is exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Council's name. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

While the value of any investment may lose value, a mechanism is set up to protect the Council from losing its investments in the instance that the counterparty fails. The Securities Investor Protection Corporation will cover up to \$500,000 (including up to \$100,000 for "cash") in the event that an investment firm collapses. In addition, a portion of the Council's investments in excess of the SIPC coverage are also insured through an additional insurance plan through the investment broker. Of the \$17,159,048 the Council has invested, \$7,240,594 is insured by the SIPC and \$9,918,454 is covered by additional insurance.

Concentration of Credit Risk: The Council places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
Merrill Lynch	\$ 17,158,560	99.997
STAR Ohio	<u>488</u>	<u>0.003</u>
Total	\$ <u>17,159,048</u>	<u>100.000</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 4 - RECEIVABLES

Receivables at December 31, 2011 consisted of intergovernmental grants and entitlements, as well as funds expected to be received from the insurance company to cover the expenses that were caused by the fire at the Avalon Road property. A summary of the receivables reported on the statement of net assets follows:

Due from other governments	\$ 204,093
Other miscellaneous	<u>111,729</u>
	<u>\$ 315,822</u>

All receivables are expected to be collected in subsequent years.

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2011</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 139,108	\$ 5,169	\$ (123,136)	\$ 21,141
Building	465,544	50,259	(13,641)	502,162
Building improvements	<u>-</u>	<u>1,082</u>	<u>-</u>	<u>1,082</u>
	604,652	56,510	(136,777)	524,385
Less: accumulated depreciation	<u>(98,606)</u>	<u>(3,393)</u>	<u>92,000</u>	<u>(9,999)</u>
	506,046	53,117	(44,777)	514,386
Land	<u>18,900</u>	<u>-</u>	<u>-</u>	<u>18,900</u>
Capital assets, net	\$ <u>524,946</u>	\$ <u>53,117</u>	\$ <u>(44,777)</u>	\$ <u>533,286</u>

NOTE 6 - RISK MANAGEMENT

A. Comprehensive

The Council is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended December 31, 2011, the Council retained property insurance and liability coverage.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the previous year.

B. Employee Dishonesty Bonds

The Council carries employee dishonesty bonds for the employees and Board Members in the amount of \$200,000.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 7 - CONTINGENCIES

A. Grants

The Council receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the basic financial statements of the individual fund types included herein or on the overall financial position of the Council at December 31, 2011.

B. Litigation

The Council is not party to any legal proceeding.

NOTE 8 - PENSION PLANS

Ohio Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans discussed above. The 2011 members in state and local classifications contributed 10% of covered payroll entirely to their pension. The Council's contribution rate for 2011 was 14% of covered payroll.

State statute sets a maximum contribution rate for the Council of 14% which includes both pension and retiree health care contributions.

The Council's required contributions for pension obligations to the three plans for the year ended December 31, 2011 was \$105,916; for the year ended December 31, 2010 it was \$90,413. 100% has been contributed for 2011 and 2010.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System

OPERS provides retirement, disability, survivor and death benefits, as well as post-employment health care coverage, 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, including post-employment health care coverage. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attn: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377. Note 8 describes the retirement portion of the OPERS system and this Note describes the other post retirement benefits.

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 the 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 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. 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 2011 local government employer units contributed at 14% of covered payroll for both pension and retiree health care benefits, of which 10% goes to pension and 4% goes to retiree health care benefits. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 9 - POSTRETIREMENT BENEFIT PLAN - continued

OPERS' Post Employment Health Care plan was established under, and is administrated 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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% from January 1, 2011 to December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% from January 1 through December 31, 2011. 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 Council's contributions allocated to fund post-employment healthcare benefits for the year ended December 31, 2011 was \$42,562; for the year ended December 31, 2010 it was \$58,503. 100% has been contributed for 2011 and 2010.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates for state and local employers increased on January 1 of each year from 2006-2008. These rate increases allowed additional funds to be allocated to the health care plan.

NOTE 11 - BUILDING FIRE

During the late evening hours on March 6, 2010, a fire broke out on the second floor of the Avalon Road office building. Many documents and equipment suffered smoke and water damage, and the Mid East Ohio Regional Council was forced to temporarily relocate first to the offices of the Mt. Vernon Developmental Center and then to their former office on Columbus Road. They rented the Columbus Road office temporarily until the building was repaired. The Council moved back into the Avalon Road building on October 1, 2011. The new fixed asset acquisitions and disposals during 2011 were due to the repairs from this fire.

NOTE 12 - SUBSEQUENT EVENTS

Mid East Ohio Regional Council has performed an evaluation of subsequent events through June 15, 2012, the date this report was issued, and concluded that there were no subsequent events which warranted disclosure herein.

Dale Saylor & Associates

Certified Public Accountants

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Dublin, Ohio 43017

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, OH 43050

We have audited the financial statements of Mid East Ohio Regional Council as of and for the year ended December 31, 2011, which collectively comprise the Mid East Ohio Regional Council's basic financial statements, and have issued our report thereon dated June 15, 2012. 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

Management of Mid East Ohio Regional Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mid East Ohio Regional Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mid East Ohio Regional Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mid East Ohio Regional Council's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
continued

Compliance and Other Matters

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

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

Jale Saylor & Associates

Dublin, Ohio
June 15, 2012

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Dave Yost • Auditor of State

MID EAST OHIO REGIONAL COUNCIL

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 23, 2012**