

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**CATHY HENTHORN, DIRECTOR OF FINANCIAL OPERATIONS**





# Dave Yost • Auditor of State

Members of the Board  
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 Julian & Grube, Inc., for the audit period January 1, 2013 through December 31, 2013. 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

July 8, 2014

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**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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**Independent Auditor's Report**

Mid East Ohio Regional Council  
Knox County  
1 Avalon Road  
Mt. Vernon, Ohio 43050

To the Members of the Board:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Mid East Ohio Regional Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Mid East Ohio Regional Council's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mid East Ohio Regional Council, Knox County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2014, on our consideration of the Mid East Ohio Regional Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mid East Ohio Regional Council's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
May 20, 2014



**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(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, 2013. 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 2013 are as follows:

- Net position increased \$2,714,075, which represents a 18.29% increase from the year ended December 31, 2012.
- The Council's operating revenues total \$9,013,817 for the year ended December 31, 2013. Operating expenses amount to \$6,308,262.

**Using the Basic Financial Statements**

***Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position 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 position, statement of revenues, expenses and changes in net position 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 position and statement of revenues, expenses and changes in net position answers the question, "How did we do financially during 2013?" 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**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

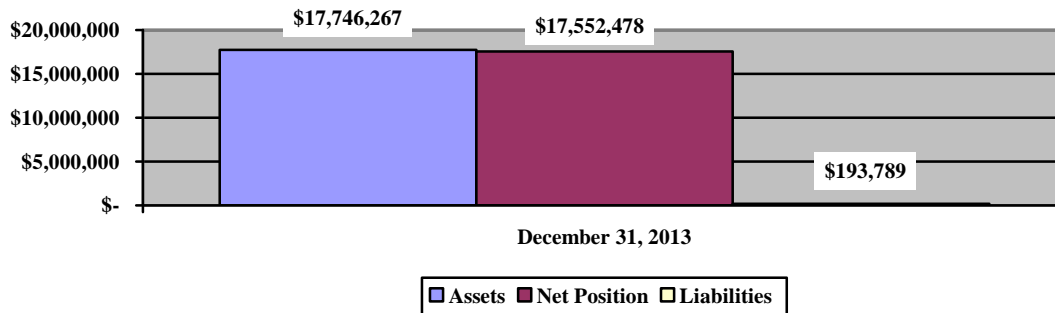
The table below provides a comparative analysis of the Council's net position for the years ended December 31, 2013 and 2012, respectively.

	<b>Net Position</b>	
	2013	2012
<u>Assets</u>		
Current Assets	\$ 17,122,447	\$ 14,375,209
Capital Assets	623,820	642,081
<b>Total Assets</b>	<b>\$ 17,746,267</b>	<b>\$ 15,017,290</b>
<u>Liabilities</u>		
Current Liabilities	193,789	178,887
<b>Total Liabilities</b>	<b>193,789</b>	<b>178,887</b>
<u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	\$ 623,820	\$ 642,081
Restricted	242,696	277,392
Unrestricted	16,685,962	13,918,930
<b>Total Net Position</b>	<b>\$ 17,552,478</b>	<b>\$ 14,838,403</b>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the Council's assets exceeded liabilities by \$17,746,267.

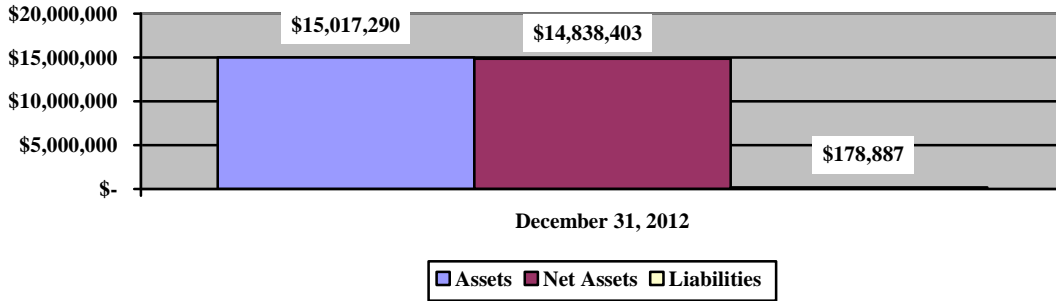
A portion of the Council's net position, \$242,696, represents resources that are subject to external restriction on how they may be used. The Council has \$623,820 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net position of \$16,685,962 may be used to meet the Council's ongoing activities.

The tables below provide a comparison of the Council's assets, liabilities and net position for the years ended December 31, 2013 and 2012, respectively.



**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**



The table below shows a comparison of the change in net position for the years ended December 31, 2013 and December 31, 2012:

	Change in Net Assets	
	2013	2012
<b><u>Operating Revenues</u></b>		
Intergovernmental - Intermediate	\$ 7,880,713	\$ 3,065,076
Intergovernmental - State	482,095	1,250,337
Intergovernmental - Federal	537,452	406,774
Other Local Revenues	71,173	63,133
Miscellaneous	42,384	21,000
<b><u>Nonoperating Revenues</u></b>		
Earnings on Investments	47,569	28,031
Unrealized Gain (Loss) on Investments	14,449	-
Realized Gain (Loss) on Investments	(1,166)	(11,012)
<b>Total Revenues</b>	<b>\$ 9,074,669</b>	<b>\$ 4,823,339</b>

Miscellaneous revenue in prior years has been largely comprised of reimbursements from supported living providers. Beginning in 2012, these types of revenues were combined into the other revenue accounts. Miscellaneous revenue for the year ended December 31, 2012 consisted of rental income from leasing a portion of their building to a center for the disabled.

Earnings on investments dropped in 2012 because the Council has pulled their funds out of investments during the year.

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b><u>Operating Expenses</u></b>		
Salaries and Benefits	\$ 2,269,780	\$ 1,621,189
Provider Services	812,706	886,448
Rent	60,368	103,065
County Expenses	95,665	-
Other Supported Living	186,796	795,517
Room and Board	146,969	96,649
IO Waiver	1,251,062	2,747,820
Travel and Training	198,124	149,616
Professional Expense	338,967	278,135
Administrative Overhead	157,614	142,131
Equipment	20,878	27,003
Depreciation	17,096	16,038
Program Expense Administrative Overhead	359,011	344,621
Program Administration	382,988	451,503
State Administration	4,936	168,285
Prior Period Adjustment	5,302	-
<b><u>Nonoperating Expenses</u></b>		
Investment Expenses	52,332	3,932
Return of Equity to County	-	-
Total Expenses	<u>6,360,594</u>	<u>7,831,952</u>
Changes in Net Position	2,714,075	(3,008,613)
Net Position Beginning of Year	<u>14,838,403</u>	<u>17,847,016</u>
Net Position End of Year	<u>\$ 17,552,478</u>	<u>\$ 14,838,403</u>

**Activities**

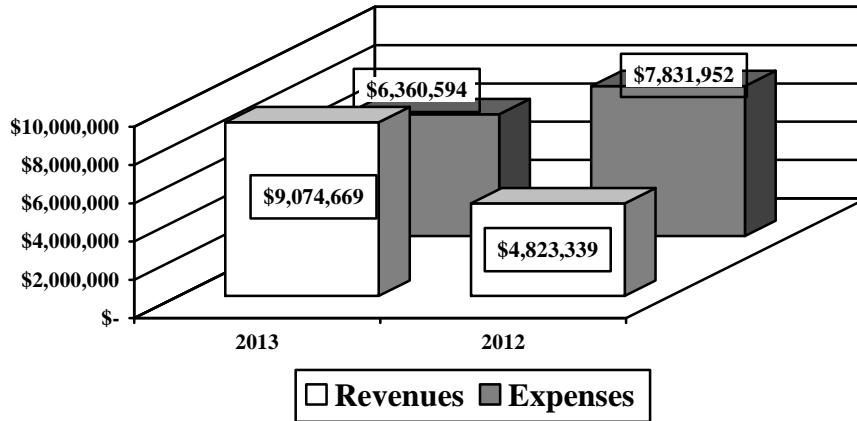
The Council's net position increased \$2,714,075. Revenues of \$9,074,669 exceeded expenses of \$6,360,594.

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

The graphs below compare the Council's activities revenue and expenses for the years ended December 31, 2013 and December 31, 2012.

**Revenues and Expenses December 31, 2013 and December 31, 2012**



**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, 2013, the Council had \$623,820 invested in capital assets, net of accumulated depreciation. This amount consisted of \$601,960 of net depreciable capital assets and \$21,860 of land, which were reported on the statement of net position. The following table shows December 31, 2013 balances compared to 2012:

**Capital Assets, Net of Depreciation**

	<u>Business-Type Activities</u>	
	<u>12/31/13</u>	<u>12/31/12</u>
Building	\$ 477,264	\$ 488,562
Building Improvements	110,992	113,550
Land	21,860	21,860
Furniture and Equipment	<u>13,704</u>	<u>18,109</u>
<b>Total</b>	<b><u>\$ 623,820</u></b>	<b><u>\$ 642,081</u></b>

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

The overall decrease in capital assets of \$18,261 is due to depreciation and asset disposals.

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

**Current Financial Related Activities**

During calendar year 2013, the Council's budgetary process continued to consist of a central agency-wide budget segmented with four departments. Department budgets were monitored through monthly reports to each responsible Director who used the data to review expenses. The MEORC Board also received reports of the budget to actual status of revenue and expenditures.

During 2013 the Council and their Board of Directors continued to explore shared services opportunities with the following approaches: the Centers of Excellence that support and align person-centered practices/philosophies transformations in Region V in relation to the 'imagine' collaboration with the Ohio Department of Developmental Disabilities (DODD); and conducting a return on investment (ROI) study through a Local Government Innovation Fund (LGIF) grant. In 2014 it is expected that further focus will be dedicated to analysis of the ROI report and recommendations to further the refine the strategic objectives that were developed in 2012.

The current fiscal position of the Council is healthy; however, being mindful of the current environment impacting all governmental entities, the Council and their Board of Directors are committed to the strategic planning that was initiated in the summer of 2012 through the development of a Strategic Implementation Committee. This Committee meet periodically throughout 2013 with the primary focuses of: reviewing results and receive recommendations of 'imagine' Center of Excellence Level changes; coordinating 'imagine' implementation to ensure alignment with strategic plan and efficiencies and guiding the shared services ROI project and LGIF report. The decision to purchase healthcare insurance coverage independent of the Knox County Commissioners, effective January 2013, proved to be a beneficial approach, financially and as a value enhanced employee benefit (with FSA and HRA components implemented),for the Council. Planning and progress towards the Council's goal to balance the projected 2014 budget, as current practice has included assessing the collective fund to support product costs to the member boards, was accomplished.

Late in 2013 MEORC was informed of the change in practice at Merrill Lynch (as part of the Merrill and Bank of America merger), they discontinued servicing all government accounts. By the end of 2013 checking and investment accounts were initiated with PNC Bank and PNC Capital Markets, LLC for all MEORC accounts and investments.

**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, Mount Vernon, Ohio 43050. You may call her at (740) 397-4733 ext. #102.

**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET POSITION  
DECEMBER 31, 2013

<b>Assets:</b>	
Equity in cash and cash equivalents. . . . .	\$ 11,253,967
Receivables:	
Due from other governments . . . . .	293,549
Other miscellaneous . . . . .	85,601
Prepayments . . . . .	15,188
Investments. . . . .	5,474,142
Total current assets . . . . .	17,122,447
<u>Noncurrent assets:</u>	
Land . . . . .	21,860
Depreciable capital assets, net . . . . .	601,960
Total assets . . . . .	\$ 17,746,267
<b>Liabilities:</b>	
<u>Current liabilities:</u>	
Accounts payable. . . . .	122,222
Accrued payroll and benefits . . . . .	71,567
Total liabilities . . . . .	193,789
<b>Net position:</b>	
Investment in capital assets . . . . .	623,820
Restricted for supported living . . . . .	242,696
Unrestricted. . . . .	\$ 16,685,962
Total net position . . . . .	\$ 17,552,478

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013

<b>Operating revenues:</b>	
Intergovernmental - Intermediate . . . . .	\$ 7,880,713
Intergovernmental - State . . . . .	482,095
Intergovernmental - Federal . . . . .	537,452
Other local revenues . . . . .	71,173
Miscellaneous . . . . .	42,384
	9,013,817
Total operating revenues . . . . .	9,013,817
<b>Operating expenses:</b>	
Salaries and benefits . . . . .	2,269,780
Provider services . . . . .	812,706
Rent . . . . .	60,368
County expense . . . . .	95,665
Other supported living . . . . .	186,796
Room and board . . . . .	146,969
IO waiver . . . . .	1,251,062
Travel and training . . . . .	198,124
Professional expense . . . . .	338,967
Administrative overhead . . . . .	157,614
Equipment . . . . .	20,878
Depreciation . . . . .	17,096
Program expense . . . . .	359,011
Program administration . . . . .	382,988
State administration . . . . .	4,936
Prior period adjustment . . . . .	5,302
	6,308,262
Total operating expenses . . . . .	6,308,262
Operating Income . . . . .	2,705,555
<b>Non-operating revenues (expenses):</b>	
Investment earnings . . . . .	47,569
Investment expenses . . . . .	(52,332)
Unrealized gain (loss) . . . . .	14,449
Realized gain (loss) . . . . .	(1,166)
	8,520
Total non-operating revenues (expenses) . . . . .	8,520
Change in net position . . . . .	2,714,075
Net position at beginning of year . . . . .	14,838,403
Net position at end of year . . . . .	\$ 17,552,478

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

<b>Cash flows from operating activities:</b>	
Cash received from operations. . . . .	\$ 8,993,510
Cash payments for operations. . . . .	<u>(6,244,548)</u>
Net cash provided by (used in) operating activities . . . . .	<u>2,748,962</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	47,569
Cash payments for investment expenses. . . . .	(3,653)
Investment purchases . . . . .	<u>(5,508,372)</u>
Net cash provided by investing activities . . . . .	<u>(5,464,456)</u>
Net increase (decrease) in cash and cash cash equivalents . . . . .	(2,715,494)
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>13,969,461</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 11,253,967</u></u>
<b>Reconciliation of operating loss to net cash (used in) operating activities:</b>	
Operating income (loss) . . . . .	\$ 2,705,555
Adjustments:	
Depreciation . . . . .	17,096
Changes in assets and liabilities:	
(Increase) in due from other governments. . . . .	(188,613)
Decrease in other miscellaneous receivable . . . . .	154,721
Decrease in prepayments . . . . .	45,302
(Decrease) in accounts payable. . . . .	(17,718)
Increase in other payables. . . . .	32,620
Rounding error. . . . .	<u>(1)</u>
Net cash (used in) operating activities . . . . .	<u><u>\$ 2,748,962</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**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) Accounting Standards Codification (ASC), provided it does not conflict with or contradict GASB pronouncements. 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 Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34." The financial statements include all operations for which the Council is financially accountable. Financial accountability, as defined by the GASB, exists if the Council appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Council. The Council may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the Council. The Council also took into consideration other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's basic financial statements to be misleading or incomplete. The Council has no component units. On this basis, no governmental organizations other than the Council itself are included in the financial reporting entity.

**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

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**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 position, a statement of revenue, expenses and changes in net position, 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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 position.

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**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, 2013.

The Council also has invested funds in Merrill Lynch. These investments consist of Federal Home Loan Bank bonds and Federal Farm Credit Bonds, 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 \$47,569.

For presentation on the statement of net position 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 position.

**F. Capital Assets**

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

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.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Furniture and Equipment	7 Years
Building and Improvements	40 Years

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**G. Net Position**

Net position represents the difference between assets and liabilities. Net position investment in capital assets, 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 position 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 position of \$242,696 is restricted for supported living.

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

**H. 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.

**I. 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, 2013.

**J. 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.

**K. 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**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;
5. No-loan money market mutual fund 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; and,
6. The State Treasury Asset Reserve of Ohio (STAR Ohio).

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)**

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, 2013, the carrying amount of the Council's deposits was \$162,687. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2013, \$160,683 of the Council's bank balance was covered by the Federal Deposit Insurance Corporation and \$2,004 was covered by the National Credit Union Share Insurance Fund.

**B. Investments**

As of December 31, 2013, 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	\$ 16,564,934	\$ 11,090,792	\$ 5,474,142
STAR Ohio	488	488	-
Total Investments	<u>16,565,422</u>	<u>11,091,280</u>	<u>5,474,142</u>
FCUSIF Deposits	2,004	2,004	-
FDIC Deposits	<u>160,683</u>	<u>160,683</u>	<u>-</u>
Total	<u>\$ 16,728,109</u>	<u>\$ 11,253,967</u>	<u>\$ 5,474,142</u>

During the current period, the Council invested in Federal Home Loan Bank bonds and Federal Farm Credit Bonds. During the year ended December 31, 2013, investments from all sources earned \$47,569 in interest and increased in value by \$13,283.

*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.



**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)**

*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 \$16,728,109 the Council has invested, \$5,474,142 is insured by the SIPC and \$11,253,967 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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Merrill Lynch	\$ 16,564,934	99.97
STAR Ohio	<u>488</u>	<u>0.03</u>
 Total	 <u>\$ 16,565,422</u>	 <u>100.00</u>

**NOTE 4 - RECEIVABLES**

Receivables at December 31, 2013 consisted of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net position follows:

Due From Other Governments	\$ 293,549
Other Miscellaneous	<u>85,601</u>
 Total	 <u>\$ 379,150</u>

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 5 - CAPITAL ASSETS**

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

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 30,399	\$ -	\$ (3,839)	\$ 26,560
Building	502,162	-	-	502,162
Building Improvements	113,697	-	-	113,697
Land	21,860	-	-	21,860
Less: Accumulated Depreciation	(26,037)	(17,096)	2,674	(40,459)
Capital Assets, Net	<u>\$ 642,081</u>	<u>\$ (17,096)</u>	<u>\$ (1,165)</u>	<u>\$ 623,820</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, 2013, 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 \$300,000.

**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, 2013.

**B. Litigation**

The Council is not party to any legal proceeding.

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 8 - PENSION PLANS**

**Ohio Public Employees Retirement System**

Plan Description - The Council participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The Council's contribution rate for 2013 was 14.00% of covered payroll.

The Council's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The Council's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The Council's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$193,019, \$107,599, and \$100,733, respectively; 100% has been contributed for 2013, 2012 and 2011. Contributions to the member-directed plan for 2013 were \$19,671 made by the Council and \$14,051 made by the plan members.

**NOTE 9 - POSTRETIREMENT BENEFIT PLANS**

**Ohio Public Employees Retirement System**

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. 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.

**MID EAST OHIO REGIONAL COUNCIL  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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. Active members do not make contributions to the post-employment healthcare plan.

The Council's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$14,848, \$43,039, and \$40,293, respectively; 100% has been contributed for 2013, 2012 and 2011.

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



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Required by *Government Auditing Standards***

Mid East Ohio Regional Council  
Knox County  
1 Avalon Road  
Mt. Vernon, Ohio 43050

To the Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements and have issued our report thereon dated May 20, 2014.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Mid East Ohio Regional Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Mid East Ohio Regional Council's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Mid East Ohio Regional Council's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Members of the Board  
Mid East Ohio Regional Council

***Compliance and Other Matters***

As part of reasonably assuring whether the Mid East Ohio Regional Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Mid East Ohio Regional Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Mid East Ohio Regional Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Julian & Grube, Inc.  
May 20, 2014



# 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  
JULY 22, 2014**