NORTH EAST OHIO NETWORK

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2007

Mary Taylor, CPA
Auditor of State

Board Members
North East Ohio Network
5121 Mahoning Ave, Suite 102
Austintown, Ohio 44515-1895

We have reviewed the *Independent Auditors' Report* of the North East Ohio Network, Trumbull County, prepared by Cohen & Company Ltd., for the audit period January 1, 2007 through December 31, 2007. 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 North East Ohio Network is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 8, 2008

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NORTH EAST OHIO NETWORK

DECEMBER 31, 2007

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Cohen & Company
Certified Public Accountants

Cohen & Company, Ltd.

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BOARD OF NORTH EAST OHIO NETWORK

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the major fund (General) and remaining fund information of North East Ohio Network as of and for the year ended December 31, 2007, which collectively comprise North East Ohio Network's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining fund information of North East Ohio Network as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2008 on our consideration of North East Ohio Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on financial statements that collectively comprise North East Ohio Network's basic financial statements. The schedule of revenues, expenditures, and changes in fund balance – budget and actual and the schedule of funds administered for county boards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cohen & Company

June 27, 2008
Youngstown, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

This discussion and analysis of North East Ohio Network's financial performance provides an overall review of the Organization's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the Organization's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the Organization's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- The assets of the Organization exceeded its liabilities at the close of the year ended December 31, 2007, by $1.8 million (net assets).

- At the end of the current fiscal year, the Organization's governmental fund reported an ending fund balance of $1.6 million, all of which is available to fund future operations.

- The Organization's total net assets increased by approximately $69,000, which represents a 4% increase from 2006.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Organization as a financial whole or as an entire operating entity.

The statements provide information about the activities of the whole Organization reconciled with adjusting entries to the Organization's fund financial statements. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending.

Reporting North East Ohio Network as a Whole

While this document contains information about the funds used by the Organization to provide services, the view of the Organization as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The government-wide statements with adjustments reconciling to the fund financial statements can be found on pages 8 – 9 of this report.

Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Reporting the Organization's Funds

Fund Financial Statements

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

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

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

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Organization's own expenses. The fiduciary fund financial statement can be found on page 10 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. The notes to the basic financial statements begin on page 11 of this report.

Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets exceeded liabilities by $1.8 million at December 31, 2007 and by $1.7 million at December 31, 2006. These net assets are unrestricted as of December 31, 2007 and 2006.

Table 1 provides a summary of the Organization's net assets for 2007 and 2006.

Table 1
Net Assets
(In Thousands)

	2007 Governmental Activities	2006 Governmental Activities
Assets		
Cash and Investments	$ 1,964	$ 1,597
Other Assets	186	153
Capital Assets, Net	46	39
Total Assets	2,196	1,789
Liabilities		
Current Liabilities	429	92
Net Assets		
Invested in Capital Assets	46	39
Unrestricted	1,721	1,658
Total Net Assets	$ 1,767	$ 1,697

Table 2 below provides a summary of the changes in net assets for 2007 and 2006.

Table 2
Changes in Net Assets
(In Thousands)

	2007 Governmental Activities	2006 Governmental Activities
Revenues		
Revenues	$ 1,820	$ 1,489
Program Expenses		
Health	1,751	1,375
Increase in Net Assets	$ 69	$ 114

Wages and related benefits and taxes accounted for 76% of total expenses in 2007 and 2006.

Revenues from waiver administration and major unusual incident fees account for 64% of total revenues in 2007 and 81% in 2006.

Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Financial Analysis of the Organization's Funds

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

The general fund is the chief operating fund of the Organization. At December 31, 2007, the unreserved fund balance of the general fund was $1.6 million. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. At December 31, 2007, unreserved fund balance represents approximately 94% of the total general fund expenditures.

The fund balance of the Organization's general fund increased by approximately $27,000 during the current fiscal year. Revenues were up approximately $335,000 while expenditures were up $373,000. The increase in revenues is related to increased participation in the level one waiver administration and quality assurance programs. The increase in expenses is due to increased wages and employee benefits.

General Fund Budgeting Highlights

The Organization's budget is prepared at the request of the Board and is based on accounting for certain transactions on the same basis as the fund statements (modified accrual). The budget is not considered legally adopted. The only budgeted fund is the General Fund.

Capital Assets and Debt Administration

Capital Assets: The Organization's investment in capital assets for its governmental activities as of December 31, 2007, amounts to approximately $46,000 (net of accumulated depreciation). This investment in capital assets includes software, furniture and equipment. Note 5 provides capital asset activity during 2007.

Current Issues

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

Contacting North East Ohio Network's Financial Management

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

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

DECEMBER 31, 2007

	General Fund	Adjustments (Note 3)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	$ 614,285		$ 614,285
Investments	1,349,995		1,349,995
Deposits and prepaid expenses	39,019		39,019
Accounts receivable from other governments	146,658		146,658
Capital assets, net of accumulated depreciation		$ 45,631	45,631
Total assets	$ 2,149,957	45,631	2,195,588
LIABILITIES			
Accounts payable	34,562		34,562
Due to other governments	3,610		3,610
Accrued wages and benefits	52,814		52,814
Unearned revenue	338,150		338,150
Deferred revenues	75,502	(75,502)	
Total liabilities	504,638	(75,502)	429,136
FUND BALANCES / NET ASSETS			
Fund balance - Unreserved	1,645,319	(1,645,319)	
Total liabilities and fund balance	$ 2,149,957		
Net Assets			
Invested in capital assets		45,631	45,631
Unrestricted		1,720,821	1,720,821
Total net assets		$ 1,766,452	$ 1,766,452

The accompanying notes are an integral part of these statements.

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

YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments (Note 3)	Statement of Activities
REVENUES:			
Waiver administration	$ 797,231	$ 27,750	$ 824,981
Family support services administration fee	179,130		179,130
Major unusual incidents fee	339,304	5,129	344,433
Level one	149,200		149,200
Quality assurance	192,522	3,096	195,618
Provider training	3,439		3,439
Investment earnings	91,529		91,529
Net increase in fair value of investments	13,376		13,376
Other	19,268	(399)	18,869
Total revenues	1,784,999	35,576	1,820,575
EXPENDITURES / EXPENSES:			
Current:			
Health			
Wages	1,021,446		1,021,446
Employee benefits	294,418		294,418
Payroll taxes	17,086		17,086
Professional fees	49,564		49,564
Office expense	68,925	(20,073)	48,852
Rent	119,145		119,145
Software	53,449		53,449
Telephone	26,988		26,988
Postage	13,786		13,786
Travel and meals	70,043		70,043
Seminars and training	5,834		5,834
Depreciation		12,214	12,214
Miscellaneous	17,601	744	18,345
Total expenditures / expenses	1,758,285	(7,115)	1,751,170
EXCESS OF REVENUES OVER EXPENDITURES	26,714	(26,714)	
CHANGE IN NET ASSETS		69,405	69,405
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	1,618,605	78,442	1,697,047
FUND BALANCE/NET ASSETS - END OF YEAR	$ 1,645,319	$ 121,133	$ 1,766,452

The accompanying notes are an integral part of these statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS

DECEMBER 31, 2007

ASSETS:	
Cash and Investments	$ 32,228,202
LIABILITIES:	
Due to Other Governments	$ 32,228,202

The accompanying notes are an integral part of these statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the Organization. Fiduciary funds are excluded from the government-wide financial statements.

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

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS

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

The Organization has the following fund types:

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

The major (and only) governmental fund is the general fund which is the Organization's primary operating fund. It accounts for all financial resources of the Organization, except those required to be accounted for in another fund.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, investment earnings and fees received from other governments are revenue sources that are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Unearned revenue represents fees billed in advance. Deferred revenue represents revenue earned but not available at year end.

Expenditure Recognition

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

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds are used to account for assets that the Organization holds for its member county boards.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investments

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

Capital Assets

Capital assets include furniture, fixtures, and equipment owned by the Organization. These assets are reported in the government-wide financial statements. The Organization defines capital assets as assets with an initial, individual cost of $1,000 or more. Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value on the dates received.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation is computed using the straight-line method over the useful lives of 5 to 7 years.

Prepaid Expenses

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

Budgetary Information

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

State Cost Report Recovery or Repayment

Revenue from the State of Ohio for certain services provided by the Organization is based on tentative payment rates. Initial reimbursement or repayment is determined by the State after submission of annual cost reports. This initial determination is then subject to audit by the State. Revenue and expense is adjusted as required in subsequent periods based on final settlements. Settlements for calendar years through 2004 have been received or repaid. Although cost reports have been filed for 2007, 2006, and 2005, no determination has been made by the State of Ohio as to reimbursement or repayment.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

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

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

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

Statement of Net Assets and Governmental Fund Balance

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund	$ 45,631
Accounts receivable not available to pay for current period expenditures are deferred in the fund	$ 75,502

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense	
Depreciation expense	$ 12,214
Loss on disposal of capital assets	$ 744
Capital outlay	$ 20,073
Proceeds from sale of equipment	$ 399
Revenues in the statement of activities that do not provide current financial resources are not reported in the fund	$ 35,975

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. CASH AND INVESTMENTS

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

Cash and investments as of December 31, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets and Governmental Fund Balance Sheet	
Cash and Cash Equivalents	$ 614,285
Investments	1,349,995
Statement of Fiduciary Assets and Liabilities – Agency Funds	
Cash and Investments	32,228,202
Total Cash and Investments	$ 34,192,482

Cash and investments as of December 31, 2007 consisted of the following:

Merrill Lynch WCMA Money Fund (WCMA)	$ 5,472,308
Merrill Lynch Institutional Fund	15,621,243
Investments	13,098,931
Total Cash and Investments	$ 34,192,482

Deposits

At December 31, 2007, the book amount of the Organization's deposits in the WCMA account was $5,472,308, and the cash balance per the WCMA statement was $5,636,318.

All deposits and investments are held in Merrill Lynch accounts in the name of the Organization or jointly in the name of the Organization and the individual county. All amounts held by Merrill Lynch are covered by Federal Deposit Insurance, Securities Investor Protection Corporation (SIPC) insurance, Excess SIPC coverage provided by surety bond, or financial guaranty insurance. None of the deposits or investments are collateralized.

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. CASH AND INVESTMENTS (Continued)

Investments

As of December 31, 2007, the Organization had the following investments and maturities:

Investment Type	Total Fair Value	Investment Maturities (in Years) Less than 1	1-5	6-10	More than 10
United States Treasury Notes	$ 4,237,371	$2,248,841	$ 1,988,530		
United States Agencies	8,339,526	4,668,241	3,671,285		
Corporate Bonds and Notes	522,034	349,817		$24,617	$147,600
Total	$13,098,931	$7,266,899	$ 5,659,815	$24,617	$147,600

Interest Rate Risk

It is the Organization's investment policy to limit investment maturities to five years. The Organization also limits the investment in corporate or commercial paper, including preferred stock, up to a maximum limit of 25% of the total investment assets.

Credit Rate Risk

The Merrill Lynch Institutional Fund is a money market fund with a rating of AAAm from Standard & Poor's.

The following summarizes credit ratings for the Organization's investments in U.S. agencies not explicitly guaranteed by the U.S. government and investments in corporate bonds, notes and preferred stock:

	Rating	Amount
U.S. Agencies		
Federal Home Loan Mtg Corporation	AAA	$ 702,964
Federal Home Loan Bank	AAA	3,400,479
Federal National Mortgage Association	AAA	4,236,083
		$ 8,339,526
Corporate Bonds and Notes		
	AAA	$ 172,217
	AA	349,817
		$ 522,034

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The Organization places no limit on the amount the Organization may invest in any one issuer. More than 5% of the Organization's cash and investments are invested in Federal National Mortgage Association and Federal Home Loan Bank investments. These investments are 12.39% and 9.95%, respectively, of the Organization's total cash and investments at December 31, 2007. In addition, Merrill Lynch Institutional Fund and Merrill Lynch WCMA Money Fund are 45.69% and 16.00%, respectively, of cash and investments at December 31, 2007.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
Governmental Activities:				
Capital assets being depreciated:				
Office equipment	$ 125,702	$ 20,073	$ 65,871	$ 79,904
Furniture and fixtures	4,912		900	4,012
Total capital assets being depreciated	130,614	20,073	66,771	83,916
Less accumulated depreciation for:				
Office equipment	87,437	12,098	64,728	34,807
Furniture and fixtures	4,262	116	900	3,478
Total accumulated depreciation	91,699	12,214	65,628	38,285
Governmental activities capital assets, net	$ 38,915	$ 7,859	$ 1,143	$ 45,631

Depreciation expense charged to governmental activities totaled $12,214 for 2007.

6. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS

OPERS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

The Ohio Revised Code provides statutory authority for members and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. The 2007 member contribution rate was 9.5%. The 2007 employer contribution rate was 13.85% of covered payroll; the employer contribution allocated to the pension plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 8.85% and 7.85% of covered payroll, respectively. The Organization's required contributions for pension obligations to OPERS for the years ended December 31, 2007, 2006 and 2005 were $86,461, $81,554, and $85,232, respectively. The full amount has been contributed for 2006 and 2005. At December 31, 2007, 80% had been contributed for 2007.

Other Post-Employment Benefits

The Ohio Public Employees Retirement System also 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 the Traditional Pension and the Combined Plans. In order to qualify for postretirement health care coverage, age-and-service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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 postretirement health care. OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. In 2007, the employer rate was 13.85% of covered payroll; the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The portion of the Organization's 2007, 2006, and 2005 contributions actually used to fund postretirement benefits was $57,501, $39,806, and $35,699, respectively.

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

Other Post-Employment Benefits (continued)

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

Significant assumptions from the last actuarial review, performed as of December 31, 2006 (latest information available), also include: a rate of return on investments of 6.5%; annual salary increases of 4.00% compounded annually and 0.50% to 6.30% for pay increases above and beyond the 4.00%. The increase in salary assumes no change in the number of active employees. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 5.00% for the next eight years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. The net assets available for OPEB at December 31, 2006 (the latest information available) was $12 billion and the actuarial accrued liability, based on the actuarial cost method used, was $30.7 billion, leaving an unfunded actuarial liability of $18.7 billion.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

7. RISK MANAGEMENT

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

The Organization provides certain dental, vision, and supplemental health insurance benefits for full time employees. These benefits are subject to certain deductibles and maximums. The Organization is self-insured for these benefits. The claims liability of $3,730 included in accounts payable at December 31, 2007 is based on the requirements of GASB Statement No. 30 which requires that a liability for unpaid claims cost, including estimates of costs related to incurred but not reported claims, be reported. Changes in the claims liability amounts for 2007 were:

Current year claims	$ 23,519
Claim payments	19,789
Balance at December 31	$ 3,730

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. COMMITMENT

Lease

The Organization rents office space under an operating lease, which was renewed in 2007, expiring in 2012. Rent expense for 2007 was $119,145.

Minimum annual rentals are as follows:

2008	105,600
2009	105,600
2010	105,600
2011	105,600
2012	17,600
	$ 440,000

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Waiver administration	$ 853,900	$ 753,900	$ 797,231	$ 43,331
Family support services administration fee	206,431	206,431	179,130	(27,301)
Major unusual incidents fee	330,000	330,000	339,304	9,304
Level one	59,200	63,200	149,200	86,000
Quality assurance	243,450	243,450	192,522	(50,928)
Provider training		9,120	3,439	(5,681)
Investment earnings	25,000	45,000	91,529	46,529
Net increase in fair value of investments			13,376	13,376
Other	10,602	110,602	19,268	(91,334)
	1,728,583	1,761,703	1,784,999	23,296
EXPENDITURES:				
Current:				
Health				
Wages	987,192	1,006,540	1,021,446	(14,906)
Employee benefits	294,385	288,960	294,418	(5,458)
Payroll taxes	26,150	27,203	17,086	10,117
Professional fees	29,200	28,000	49,564	(21,564)
Office expense	35,000	35,000	68,925	(33,925)
Rent	110,600	110,600	119,145	(8,545)
Software	30,000	30,000	53,449	(23,449)
Telephone	25,000	25,000	26,988	(1,988)
Postage			13,786	(13,786)
Travel and meals	39,500	59,500	70,043	(10,543)
Seminars and training	10,000	10,000	5,834	4,166
Miscellaneous	15,600	22,600	17,601	4,999
Capital outlay	35,000	35,000		35,000
	1,637,627	1,678,403	1,758,285	(79,882)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	90,956	83,300	26,714	$ (56,586)
FUND BALANCE - BEGINNING OF YEAR	1,618,605	1,618,605	1,618,605	
FUND BALANCE - END OF YEAR	$ 1,709,561	$ 1,701,905	$ 1,645,319	

SCHEDULE OF FUNDS ADMINISTERED FOR COUNTY BOARDS

YEAR ENDED DECEMBER 31, 2007

	Ashtabula	Columbiana	Cuyahoga	Geauga	Lake	Lorain	Mahoning	Medina	Portage	Stark	Summit	Trumbull	Wayne	Total
Cash and investment balance - Cost - January 1, 2007	$ 953,600	$ 2,864,167		$ 153,040	$ 2,858,537	$ 2,077,742	$ 1,371,393	$ 3,067,383	$ 3,042,879	$ 1,653,242	$ 1,033,288	$ 250,265	$ 1,152,484	$ 20,478,020
Funds received	797,807	1,168,647	$ 17,447,500	1,425,899	2,437,773	2,177,987	5,119,434	1,492,513	5,424,340	4,659,014	10,134,142	123,631	1,373,954	53,782,641
Investment earnings	57,199	139,876	452,567	27,789	187,139	152,398	163,624	141,138	207,304	139,561	255,683	15,098	53,604	1,992,980
Program expenses	(692,797)	(1,218,505)	(15,604,332)	(1,446,659)	(777,656)	(1,210,757)	(3,533,886)	(2,161,639)	(2,930,190)	(4,276,265)	(8,303,063)	(55,374)	(1,937,700)	(44,148,823)
Bank service charges	(425)	(300)	(300)	(300)	(475)	(730)	(550)	(375)	(450)	(425)	(300)	(450)	(300)	(5,380)
Cash and investment balance - Cost - December 31, 2007	1,115,384	2,953,885	2,295,435	159,769	4,705,318	3,196,640	3,120,015	2,539,020	5,743,883	2,175,127	$ 3,119,750	333,170	642,042	32,099,438
Unrealized gain	3,327	10,825			24,638	37,324		10,174	33,482	5,992			3,002	128,764
Cash and investment balance - Market - December 31, 2007	$ 1,118,711	$ 2,964,710	$ 2,295,435	$ 159,769	$ 4,729,956	$ 3,233,964	$ 3,120,015	$ 2,549,194	$ 5,777,365	$ 2,181,119	$ 3,119,750	$ 333,170	$ 645,044	$ 32,228,202

Note: Funds held in individual accounts for each county

Cohen & Company
Certified Public Accountants

Cohen & Company, Ltd.

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Westlake
Youngstown

BOARD OF NORTH EAST OHIO NETWORK

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities and the major fund and remaining fund information of North East Ohio Network (the Organization) as of and for the year ended December 31, 2007, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated June 27, 2008.

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

Cohen & Company

June 27, 2008
Youngstown, Ohio

Mary Taylor, CPA
Auditor of State

NORTH EAST OHIO NETWORK

TRUMBULL 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
AUGUST 21, 2008

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