



**Auditor of State
Betty Montgomery**

**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

Heartland Council of Governments
Richland County
1495 Longview Avenue, Suite 100
Mansfield, Ohio 44906

To the Members of the Board:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

November 3, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Heartland Council of Governments
Richland County
1495 Longview Avenue, Suite 100
Mansfield, Ohio 44906

To the Members of the Board:

We have audited the accompanying financial statements of the Heartland Council of Governments, Richland County, Ohio, (the COG) as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the COG'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the COG has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the COG to reformat its financial statement presentation and make other changes effective for the year ended June 30, 2005. While the COG does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The COG has elected not to reformat its statements. Since this COG does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended June 30, 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the COG as of June 30, 2005, or its changes in financial position for the year then ended.

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances and reserves for encumbrances of the COG, as of June 30, 2005 and 2004, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the COG to include Management's Discussion and Analysis for the year ended June 30, 2005. The COG has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2005, on our consideration of the COG'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

November 3, 2005

**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
Cash Receipts:		
Intergovernmental	\$829,646	\$593,005
Charges for Services	1,253,484	1,148,002
Sales	68,485	114,708
Earnings on Investments	5,776	3,779
Miscellaneous		440
	2,157,391	1,859,934
Cash Disbursements:		
Current:		
Employees' Salaries	754,398	757,739
Fringe Benefits	272,803	284,816
Purchased Services	873,616	803,439
Supplies and Materials	108,080	109,627
Other	20,960	24,142
Capital Outlay	160,824	113,060
	2,190,681	2,092,823
Total Cash Receipts (Under) Cash Disbursements	(33,290)	(232,889)
Fund Cash Balance, July 1	206,410	439,299
Fund Cash Balance, June 30	\$173,120	\$206,410
Reserves for Encumbrances, June 30	\$43,325	\$41,508

The notes to the financial statement are an integral part of this statement.

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**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Heartland Council of Governments, Richland County, Ohio, (the COG) as a body corporate and politic. Eligibility for membership in the COG includes 16 local school districts, one educational service center, one career and technology center and a consortium of community schools. Each member's Board appoints its Superintendent or Superintendent's designee to act as its representative at COG meetings and for all COG activities. The COG is directed by an appointed eight-member Board of Directors. The COG provides computer and data processing services to its members and other government entities. The COG provides an employing authority which can administer all personnel functions needed to facilitate the use of temporary excess computer capacity and personnel time to provide computer services to nonmembers and to permit the expansion into new areas of technology.

The Pioneer Career and Technology Center, Richland County, Ohio, serves as the fiscal agent for the COG and provides certain accounting and administrative services to the COG.

The COG's management believes these financial statements present all activities for which the COG is financially accountable.

B. Basis of Accounting

This financial statement follows the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The COG recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The COG's cash is held and invested by the Pioneer Career and Technology Center (the Center) Treasurer, who acts as custodian for COG monies. The COG's investments are held in the Center's cash and investment pool and are valued at the Center's reported carrying amount.

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30, 2005 and 2004 was \$173,120 and \$206,410, respectively.

D. Fund Accounting

The COG uses fund accounting to segregate cash and investments that are restricted as to use. The General Fund is the general operating fund of the COG and is used to account for all financial resources.

**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code does not require the COG to budget annually. However, management prepares a budget for internal monitoring.

A summary of 2005 and 2004 budgetary activity appears in Note 2.

F. Property, Plant and Equipment

The COG records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

H. Related Party Transactions

The COG rents office space from one of its members, the Mid-Ohio Educational Service Center. The rent is paid quarterly, totaling \$16,613 for each year.

2. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,160,238	\$2,157,391	\$997,153

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,881,945	\$2,234,006	\$647,939

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,403,000	\$1,859,934	(\$543,066)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,842,299	\$2,134,331	\$707,968

**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

3. RETIREMENT SYSTEMS

The COG provides retirement benefits to all certificated employees under the State Teachers' Retirement System and to all non-certified employees under the School Employees Retirement System.

A. State Teachers Retirement System

The COG contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

Plan members are required to contribute 10 percent of their annual covered salary and the COG is required to contribute 14 percent. Contribution rates are established by the STRS Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

B. School Employees Retirement System

The COG also contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and health benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. This report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the COG is required to contribute 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. In addition to the salary contributions, the COG pays an additional 14 percent contribution on salaries of employees who are paid below a level established annually by SERS actuaries. This additional contribution is referred to as the "employer surcharge."

4. RISK MANAGEMENT

The COG has general liability coverage through the Pioneer Career and Technology Center (the Center). The COG also provides health insurance and dental and vision coverage to full-time employees through Gallagher Benefits Administrators, Inc. through the Center.

**HEARTLAND COUNCIL OF GOVERNMENTS
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

5. DEBT

Debt outstanding at June 30, 2005 was \$307,044 as follows:

	Principal	Interest Rate
Lease Purchase Agreement	\$307,044	3.79%

The Lease Purchase Agreement relates to a network upgrade. The COG will pay the lease in quarterly installments of \$29,525, including interest, over 4 years.

Amortization of the above debt, including interest, follows:

Year ending June 30:	Lease Purchase Agreement
2006	\$118,100
2007	118,100
2008	88,575
Total	\$324,775



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Heartland Council of Governments
Richland County
1495 Longview Avenue, Suite 100
Mansfield, Ohio 44906

To the Members of the Board:

We have audited the financial statements of the Heartland Council of Governments, Richland County, Ohio, (the COG) as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated November 3, 2005, wherein we noted the COG followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the COG's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the COG'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, providing an opinion 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*. In a separate letter to the COG's management dated November 3, 2005, we reported an other matter related to noncompliance we deemed immaterial.

Heartland Council of Governments
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Heartland Council of Governments Board. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 3, 2005



**Auditor of State
Betty Montgomery**

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HEARTLAND COUNCIL OF GOVERNMENTS

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 13, 2005**