



**Mary Taylor, CPA**  
Auditor of State



**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

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# Mary Taylor, CPA

Auditor of State

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 an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Council of Governments 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 adverse 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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

October 9, 2007

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# Mary Taylor, CPA

Auditor of State

## 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, 2007 and 2006. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the COG's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require councils of governments to reformat their statements. The COG has elected not to follow GAAP statement formatting requirements. 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 years ended June 30, 2007 and 2006 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, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Heartland Council of Governments, Richland County, Ohio as of June 30, 2007 and 2006, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 October 9, 2007, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

October 9, 2007



**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>All Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Intergovernmental	\$897,356	\$81,671	\$979,027
Charges for Services	1,326,804	27,558	1,354,362
Sales	241,757		241,757
Earnings on Investments	13,314		13,314
Total Cash Receipts	<u>2,479,231</u>	<u>109,229</u>	<u>2,588,460</u>
<b>Cash Disbursements:</b>			
Salaries	856,669		856,669
Employee Fringe Benefits	317,544		317,544
Purchased and Contractual Services	1,053,255	73,253	1,126,508
Supplies and Materials	224,374	3,859	228,233
Other	21,633	1,450	23,083
Capital Outlay	81,061	29,048	110,109
Debt Service:			
Redemption of Principal	139,516		139,516
Interest and Other Fiscal Charges	8,109		8,109
Total Cash Disbursements	<u>2,702,161</u>	<u>107,610</u>	<u>2,809,771</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(222,930)	1,619	(221,311)
Fund Cash Balances, July 1	<u>419,005</u>		<u>419,005</u>
<b>Fund Cash Balances, June 30</b>	<b><u>\$196,075</u></b>	<b><u>\$1,619</u></b>	<b><u>\$197,694</u></b>
Reserve for Encumbrances, June 30	<u>\$111,812</u>	<u>\$0</u>	<u>\$111,812</u>

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

**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General</b>
<b>Cash Receipts:</b>	
Intergovernmental	\$1,106,861
Charges for Services	1,112,909
Sales	218,782
Earnings on Investments	7,475
Miscellaneous	87
	<b>2,446,114</b>
<b>Cash Disbursements:</b>	
Salaries	771,283
Employee Fringe Benefits	290,189
Purchased and Contractual Services	737,202
Supplies and Materials	265,076
Other	28,285
Capital Outlay	19,619
Debt Service:	
Redemption of Principal	80,606
Interest and Other Fiscal Charges	7,969
	<b>2,200,229</b>
Total Cash Receipts Over Cash Disbursements	<b>245,885</b>
Fund Cash Balance, July 1	<b>173,120</b>
<b>Fund Cash Balance, June 30</b>	<b>\$419,005</b>
Reserve for Encumbrances, June 30	<b>\$20,962</b>

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

**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**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 15 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. Accounting Basis**

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, 2007 and 2006 was \$197,694 and \$419,005, respectively.

**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting**

The COG uses fund accounting to segregate cash and investments that are restricted as to use. The COG classifies its funds into the following types:

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Fund**

This fund accounts for proceeds from specific sources that are restricted to expenditure for specific purposes. The COG had the following Special Revenue Fund:

The Library Service and Technology Act Fund receives grant funds and local matching funds for technological improvements to libraries.

**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 2007 and 2006 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.

**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006  
(Continued)**

**2. Budgetary Activity**

Budgetary activity for the years ended June 30, 2007 and 2006 is as follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,206,531	\$2,479,231	\$1,272,700
Special Revenue		109,229	109,229
Total	\$1,206,531	\$2,588,460	\$1,381,929

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,198,712	\$2,813,973	(\$1,615,261)
Special Revenue		107,610	(107,610)
Total	\$1,198,712	\$2,921,583	(\$1,722,871)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,185,731	\$2,446,114	\$1,260,383

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,179,024	\$2,221,191	(\$1,042,167)

**3. Debt**

Debt outstanding at June 30, 2007 was as follows:

	Principal	Interest Rate
Lease Purchase Agreement	\$86,922	3.79%

The Lease Purchase Agreement relates to a 2004 network upgrade.

At June 30, 2007, three quarterly payments of \$29,525 due in fiscal year 2008 remain on this lease for a total of \$88,575, including interest.

**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006  
(Continued)**

**4. Retirement System**

The COG provides retirement benefits to all employees under the School Employees Retirement System of Ohio.

The COG 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 death 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. That 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 (800) 878-5853, or by visiting SERS' website, at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the COG is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the COG's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. 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 by SERS actuaries. This additional contribution is referred to as the "employer surcharge". The COG has paid all contributions required through June 30, 2007.

**5. Risk Management**

**Commercial Insurance**

The COG has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The COG also provides health insurance and dental and vision coverage to full-time employees through American Administrative Group, through the Pioneer Career and Technology Center



# Mary Taylor, CPA

Auditor of State

## 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, 2007 and 2006, and have issued our report thereon dated October 9, 2007, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the COG's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the COG's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 COG's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the COG's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: Finding Number 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the COG's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe Finding Number 2007-001 is also a material weakness.

### **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*.

The COG's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the COG's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management and the Heartland Council of Governments Board. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

October 9, 2007



**HEARTLAND COUNCIL OF GOVERNMENTS  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007 AND 2006**

**FINDING NUMBER 2007-001**

**Material Weakness:**

Receipt and Disbursement Posting

Our testing revealed the COG recorded several transactions incorrectly. Significant mispostings included the following:

- \$139,516 and \$80,606 of capital lease principal payments originally recorded as capital outlay in the General Fund during 2007 and 2006, respectively;
- \$8,109 and \$7,969 of capital lease interest payments originally recorded as capital outlay in the General Fund during 2007 and 2006, respectively;
- \$457,858 of intergovernmental revenues originally recorded as charges for services in the General Fund during 2006.

These errors were adjusted to the audited financial statements.

Sound financial reporting is the responsibility of the Fiscal Officer and the COG's Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the COG's financial statements and notes to the statements are complete and accurate, the COG should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the COG's Board, to identify and correct errors and omissions. The Fiscal Officer should also review the chart of accounts to ensure all accounts are being posted properly to the financial statements.

**Official's Response:** Management has reviewed the posting errors on the fiscal year 2006 statement and will make the necessary corrections on future postings and statement presentation at fiscal year end.





**Mary Taylor, CPA**  
Auditor of State

**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  
NOVEMBER 13, 2007**