

Heartland Council of Governments
Richland County, Ohio

Audited Financial Statements

For the fiscal years ended June 30, 2011 and 2010



Dave Yost • Auditor of State

Board of Directors
Heartland Council of Governments
1495 Longview Avenue, Suite 100
Mansfield, OH 44906

We have reviewed the *Independent Auditor's Report* of the Heartland Council of Governments, Richland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 to June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Heartland Council of Governments is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 7, 2012

Heartland Council of Governments
Richland County, Ohio
Table of Contents
For the Fiscal Years Ended June 30, 2011 and 2010

TABLE OF CONTENTS

Independent Auditor’s Report	1
Statements of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance - For the Years Ended June 30, 2011 and 2010	3
Notes to the Financial Statements	5
Independent Auditor’s 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.....	9



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 29, 2011

Board of Directors
Heartland Council of Governments
Richland County
1495 Longview Avenue, Suite 100
Mansfield, OH 44906

Independent Auditor's Report

We have audited the accompanying financial statements of Heartland Council of Governments, Richland County, (the COG) as of and for the years ended June 30, 2011 and 2010. 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 audits.

We conducted our audits 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 audits 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 COGs 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, 2011 and 2010, 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, 2011 and 2010, 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 the COG, as of June 30, 2011 and 2010, and its combined 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 December 29, 2011, 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* and should be considered in assessing the results of our audit.

Rea & Associates, Inc.

Heartland Council of Governments
Richland County
Statements of Cash Receipts, Cash Disbursements, and
Changes in Fund Cash Balance
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Receipts:		
Intergovernmental	\$ 171,559	\$ 180,922
Charges for Services	2,370,083	2,569,498
Sales	35,094	26,281
Earnings on Investments	3,391	4,300
Miscellaneous	27,182	0
Total Cash Receipts	2,607,309	2,781,001
Cash Disbursements:		
Salaries	1,040,212	1,009,800
Employee Fringe Benefits	431,037	397,418
Purchased and Contractual Services	1,057,008	959,431
Supplies and Materials	82,175	87,400
Other	21,568	26,101
Capital Outlay	70,764	149,523
Total Cash Disbursements	2,702,764	2,629,673
 Total Cash Receipts Over (Under) Cash Disbursements	 (95,455)	 151,328
 Fund Cash Balance, July 1	 769,673	 618,345
 Fund Cash Balance, June 30	 \$ 674,218	 \$ 769,673
 <i>Reserve for Encumbrances, June 30</i>	 \$ 56,561	 \$ 44,158

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

This page is intentionally left blank.

Heartland Council of Governments
Richland County
Notes to the Financial Statements
For the Fiscal Years June 30, 2011 and 2010

NOTE 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 non-members and to permit the expansion into new areas of technology.

The Pioneer Career and Technology Center, Richland County, Ohio, (the Center) 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

These financial statements follow 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 Center's 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, 2011 and 2010 was \$674,218 and \$769,673, respectively.

Heartland Council of Governments
Richland County
Notes to the Financial Statements
For the Fiscal Years June 30, 2011 and 2010

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.

E. Budgetary Process

The Ohio Revised Code does not require the COG to budget annually. However, management prepares a budget for internal monitoring. Budgetary basis expenditures include outstanding year end encumbrances.

A summary of 2011 and 2010 budgetary activity appears in Note 2.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by COG.

NOTE 2 - BUDGETARY ACTIVITY

COG is not required to follow the budgetary process, but has decided to adopt a formal budget annually. Budgetary activity for the years ended June 30, 2011 and 2010 follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>2011</u>			
Revenues	\$ 3,000,000	\$ 2,607,309	\$ (392,691)
Expenditures*	2,425,176	2,759,325	(334,149)
<u>2010</u>			
Revenues	\$ 2,623,689	\$ 2,781,002	\$ 157,313
Expenditures*	2,530,386	2,673,831	(143,445)

*Budgeted expenditures include prior year encumbrances and current year appropriations and actual expenditures include actual disbursements and current year-end encumbrances.

Heartland Council of Governments
Richland County
Notes to the Financial Statements
For the Fiscal Years June 30, 2011 and 2010

NOTE 3 – RETIREMENT SYSTEM

Plan Description - COG contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the COG is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to Health Care and Medicare B Fund. The COG has paid all contributions required through June 30, 2011.

NOTE 4 - 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, dental, and vision coverage to full-time employees through the Center. There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

This page is intentionally left blank.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 29, 2011

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

Independent Auditor's 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 financial statements of Heartland Council of Governments, Richland County, (the COG) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 29, 2011, in which it is noted that the COG prepared its financial statements on a basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a basis other 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the COG is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the COG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the COG's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Heartland Council of Governments
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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and Board of Directors and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



Dave Yost • 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
MARCH 20, 2012