



Rea & associates *a brighter way*

Heartland Council of Governments

Richland County, Ohio

Audited Financial Statements

For the Years Ended
June 30, 2013 and 2012



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, 2011 to June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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

November 25, 2013

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Heartland Council of Governments
Richland County, Ohio
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For the Years Ended June 30, 2013 and 2012

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October 17, 2013

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Heartland Council of Governments, Richland County, (the COG) as of and for the years ended June 30, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the COG prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the COG as of June 30, 2013 and 2012, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Heartland Council of Governments, Richland County, as of June 30, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

As described in Note 1 to the financial statements, during 2012 the COG adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the COG's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

Heartland Council of Governments
Richland County, Ohio
Statements of Cash Receipts, Cash Disbursements, and
Changes in Fund Cash Balance
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Receipts:		
Intergovernmental	\$ 191,133	\$ 128,635
Charges for Services	2,852,700	2,743,655
Sales	41,350	35,801
Earnings on Investments	1,657	2,037
Miscellaneous	25,214	25,000
Total Cash Receipts	3,112,054	2,935,128
Cash Disbursements:		
Salaries	1,133,997	1,098,192
Employee Fringe Benefits	479,419	460,313
Purchased and Contractual Services	1,134,737	1,003,362
Supplies and Materials	340,167	51,556
Other	22,806	28,429
Capital Outlay	231,466	178,728
Total Cash Disbursements	3,342,592	2,820,580
 Total Cash Receipts Over (Under) Cash Disbursements	 (230,538)	 114,548
 Fund Cash Balance, July 1	 788,766	 674,218
Fund Cash Balances, June 30		
Assigned:		
Support Services	35,523	86,130
Unassigned	522,705	702,636
Total Fund Cash Balance, June 30	\$ 558,228	\$ 788,766

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

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Heartland Council of Governments
Richland County, Ohio
Notes to the Financial Statements
For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012 was \$558,228 and \$788,766, respectively.

Heartland Council of Governments
Richland County, Ohio
Notes to the Financial Statements
For the Years Ended June 30, 2013 and 2012

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 2013 and 2012 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.

H. Implementation of New Accounting Policies

On July 1, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

I. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the COG classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Heartland Council of Governments
Richland County, Ohio
Notes to the Financial Statements
For the Years Ended June 30, 2013 and 2012

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the COG’s Board. Those committed amounts cannot be used for any other purpose unless the COG Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the COG for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the COG. The COG Board has by resolution authorized the Treasurer to assign fund balance. The COG Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The COG applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Heartland Council of Governments
Richland County, Ohio
Notes to the Financial Statements
For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012 follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>2013</u>			
Revenues	\$ 3,877,636	\$ 3,112,054	\$ (765,582)
Expenditures*	3,959,130	3,378,115	581,015
<u>2012</u>			
Revenues	\$ 2,913,785	\$ 2,935,128	\$ 21,343
Expenditures*	3,061,861	2,906,710	155,151

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

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, 2013, the allocation to pension and death benefits is 13.05%. The remaining .95% 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, 2013.

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.

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Notes to the Financial Statements
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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.

NOTE 5 – OTHER COMMITMENTS

The COG utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed or assigned classifications of fund balance. At year-end, the COG commitments for encumbrances in the governmental fund was \$35,523 for fiscal year ending 2013 and \$86,130 for fiscal year ending 2012.

October 17, 2013

Board of Directors
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
Required by *Government Auditing Standards***

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Heartland Council of Governments, Richland County, (the COG) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated October 17, 2013, wherein we noted the COG followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

As described in Note 1 to the financial statements, during 2012 the COG adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control over Financial Reporting

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

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

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

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Hea & Associates, Inc.

Medina, Ohio

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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
DECEMBER 5, 2013**