

MIDLAND COUNCIL OF GOVERNMENTS

WAYNE COUNTY, OHIO

AUDIT REPORT

For the Years Ended June 30, 2005 & 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Governmental Consultants



**Auditor of State
Betty Montgomery**

Executive Committee
Midland Council of Governments
2125 B Eagle Pass Road
Wooster, Ohio 44691

We have reviewed the *Report of Independent Accountants* of the Midland Council of Governments, Wayne County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2003 through June 30, 2005. 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 Midland Council of Governments is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 31, 2006

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MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO
Audit Report
For the years ended June 30, 2005 & 2004

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Executive Committee
Midland Council of Governments
2125-B Eagle Pass Road
Wooster, Ohio 44691

We have audited the accompanying financial statements of the Midland Council of Governments (Council), Wayne County, Ohio as and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the Council'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 that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Council 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 Council to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2005 and 2004. While the Council 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 Council has elected not to reformat its statements. Since the Council 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 years ended June 30, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2005 and 2004, or its changes in financial position for the year 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 Midland Council of Governments, as of June 30, 2005 and 2004, and its combined 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 Council to include Management's Discussion and Analysis for the years ended June 30 2005 & 2004. The Council 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 February 10, 2006, on our consideration of the Council'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 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.

Charles E. Harris & Associates, Inc.

February 10, 2006

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO
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	\$ 397,567	\$ 429,248
Charges for Services	2,844,094	2,558,263
Earnings on Investments	12,332	7,352
Other Revenue	3,913	5,586
Total Cash Receipts	3,257,906	3,000,449
Cash Disbursements:		
Salaries	1,315,555	1,182,873
Employee Benefits	466,481	414,676
Purchased Services	662,355	781,510
Materials and Supplies	496,586	493,036
Distributions to Member Districts	87,184	103,791
Capital Outlay	39,747	6,501
Debt Service:		
Redemption of Principal	212,615	129,237
Interest and Fiscal Charges	11,688	11,596
Total Cash Disbursements	3,292,211	3,123,220
Cash Receipts Over/(Under) Cash Disbursements	(34,305)	(122,771)
Fund Balance, July 1	847,524	970,295
Fund Balance, June 30	\$ 813,219	\$ 847,524
Reserve for Encumbrances, June 30	\$ 56,957	\$ 132,444

See accompanying Notes to the Financial Statements.

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO**

**Notes to the Financial Statements
For the Years Ended June 30, 2005 & 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Midland Council of Governments, Wayne County, Ohio, (the Council) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Eligible members of the Council include 17 school districts, one educational service center, and two career centers. Each member's Board appoints its Superintendent or Superintendent's designee to act as its representative at Council meetings and for all Council activities. The Council is directed by an appointed seven-member Executive Committee. The Council provides computer and data processing services to its members and other government entities.

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

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Investments are included in the cash fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. The investment in STAR Ohio (the State Treasurer' investment pool) is valued at amounts reported by the State Treasurer. Repurchase agreements are valued at cost

D. FUND ACCOUNTING

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

E. BUDGETARY PROCESS

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

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

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO**

**Notes To The Financial Statements
For the Years Ended June 30, 2005 & 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under Council's basis of accounting.

2. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 2005 & 2004 is as follows:

2005 Budgeted vs. Actual Receipts				
Fund Type	Budgeted Receipts	Actual Receipts	Variance	
General	\$ 2,953,070	\$ 3,257,906	\$	304,836

2005 Budgeted vs. Actual Budgetary Basis Expenditures				
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance	
General	\$ 3,437,881	\$ 3,349,168	\$	88,713

2004 Budgeted vs. Actual Receipts				
Fund Type	Budgeted Receipts	Actual Receipts	Variance	
General	\$ 2,931,948	\$ 3,000,449	\$	68,501

2004 Budgeted vs. Actual Budgetary Basis Expenditures				
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance	
General	\$ 3,920,948	\$ 3,255,664	\$	665,184

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO**

**Notes To The Financial Statements
For the Years Ended June 30, 2005 & 2004**

3. EQUITY IN POOLED CASH AND INVESTMENTS

The Council maintains a cash and investment pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Demand Deposits	(184,545)	(95,027)
STAR-Ohio	812,764	667,551
Repurchase Agreement	<u>185,000</u>	<u>275,000</u>
Total Deposits and Investments	<u>813,219</u>	<u>847,524</u>

The Council had negative balances in their demand deposits at June 30, 2005 and 2004 due to their funds being invested in overnight repurchase agreements.

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

Investments: Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form.

4. RETIREMENT SYSTEMS

The Council 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 Council 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 benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available 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.

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

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO**

**Notes To The Financial Statements
For the Years Ended June 30, 2005 & 2004**

4. RETIREMENT SYSTEMS – (continued)

B. School Employees Retirement System

The Council also contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary, and the Council 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 Council 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."

5. RISK MANAGEMENT

The Council has obtained commercial insurance for the following risks:

- . Comprehensive property and general liability;
- . Vehicles;
- . Commercial inland marine;
- . General liability;
- . Public officials' liability

The Council also provides health insurance and dental and vision coverage to full-time employees through the Tri-County Educational Service Center Joint Self-Insurance Plan.

6. FISCAL AGENT

The Tri-County Educational Service Center, Wayne County, Ohio, serves as the fiscal agent for the Council and provides certain accounting and administrative services to the Council.

MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY, OHIO

Notes To The Financial Statements
For the Years Ended June 30, 2005 & 2004

7. CAPITAL LEASES

The Council entered into a lease purchase agreement with Fifth Third Bank on September 25, 2002. The Council is leasing a computer networking equipment with a cost of \$309,367. The lease is for a period of 36 months with an interest rate of 4.82%. Monthly payments are \$9,247 with final payment due September 25, 2005.

The Council entered into a lease purchase agreement with GFC Leasing on May 19, 2003. The Council is leasing a copier with a cost of \$12,429. The lease is for a period of 36 months with an interest rate of 9.6%. Monthly payments are \$399 with final payment due April 20, 2006.

The Council entered into a lease purchase agreement with Key Bank on April 28, 2004. The Council is leasing a computer networking equipment with a cost of \$312,766. The lease is for a period of 36 months with an interest rate of 2.80%. Monthly payments are \$9,067 with final payment due April 30, 2007.

The following is a schedule of future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

<u>For The Year Ending June 30</u>	<u>Amount</u>
2006	\$140,537
2007	<u>90,674</u>
Total Minimum Lease Payments	231,211
Less Amount Representing Interest	<u>(5,637)</u>
Present Value of Future Lease Payments	<u>\$225,574</u>

8. CONTINGENT LIABILITIES

The Council may be a defendant in various lawsuits. Although, the outcome of the lawsuits is not presently determinable, in the opinion of their legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Council.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Executive Committee
Midland Council of Governments
Wayne County
2125-B Eagle Pass Road
Wooster, Ohio 44691

We have audited the financial statements of the Midland Council of Governments, Wayne County, Ohio (Council) as of and for the years ended June 30, 2005 & 2004, and have issued our report thereon dated February 10, 2006, wherein we noted the Council prepared its financial statements using 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Council in a separate letter dated February 10, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 the management and the Executive Committee and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.

February 10, 2006

**MIDLAND COUNCIL OF GOVERNMENTS
WAYNE COUNTY
For the Years Ended June 30, 2005 & 2004**

SCHEDULE OF PRIOR AUDIT FINDINGS

The audit report, for the years ending June 30, 2003 and 2002, reported no material citations or recommendations.



**Auditor of State
Betty Montgomery**

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MIDLAND COUNCIL OF GOVERNMENTS

WAYNE 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
APRIL 13, 2006**