



**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 & 2003



**Auditor of State
Betty Montgomery**

CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances - The General Fund - For the Years Ended December 31, 2004 and 2003	5
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	9
Schedule of Findings	11
Schedule of Prior Audit Findings	12

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**Auditor of State
Betty Montgomery**

Chagrin/Southeast Council of Governments
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146

To the Board of Trustees:

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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 28, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Chagrin/Southeast Council of Governments
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146

To the Board of Trustees:

We have audited the accompanying financial statements of the Chagrin/Southeast Council of Governments, Cuyahoga, County, Ohio, (the Council) as of and for the years ended December 31, 2004 and December 31, 2003. 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 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 Authority to reformat its financial statement presentation and make other changes effective for the year ended December 31, 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 Councils to reformat its statements. The Council has elected not to reformat its statements. Since this 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 year ended December 31, 2004 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of December 31, 2004, or their 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 fund cash balances of the Chagrin/Southeast Council of Governments, Cuyahoga County, Ohio, as of December 31, 2004 and December 31, 2003, 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 Council to include Management's Discussion and Analysis for the year ended December 31, 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 June 28, 2005, 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 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

June 28, 2005

**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - THE GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Receipts:		
Membership Dues	\$32,000	\$34,000
Grants	8,379	0
Earnings on Investments	1,188	1,273
Miscellaneous	0	5,491
Total Cash Receipts	41,567	40,764
Cash Disbursements:		
Salaries	1,500	1,500
Purchased Services	4,112	7,165
Supplies and Materials	6,488	10,715
Equipment	15,013	2,375
Training Conferences	5,001	10,097
Capital Outlay		
Debt Service	15,227	15,227
Miscellaneous	536	188
Total Cash Disbursements	47,877	47,267
Total Receipts Over/(Under) Disbursements	(6,310)	(6,503)
Excess of Cash Receipts Over/(Under) Cash Disbursements	(6,310)	(6,503)
Cash Balances, January 1	124,266	130,769
Cash Balances, December 31	\$117,956	\$124,266

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

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**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Chagrin/Southeast Council of Governments, Cuyahoga County, Ohio, (the Council) is a Regional Council of Governments established under the authority of Ohio Revised Code Chapter 1702 and 167. The Council is comprised of 17 local municipalities. The Council is directed by a three-member Board of Trustees which is elected by the members. The Council was formed to foster cooperation between the member municipalities in the area of hazardous material spill mitigation. Each member pays \$2,000 in annual membership dues.

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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when 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 and Investments

The accounting basis includes Investments as assets. This basis does not record investment purchases as disbursements or investments sales as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The accounting basis values certificates of deposit, and U.S. Treasury Notes and common stock at cost. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

D. Fund Accounting

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

General Fund

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

E. Property, Plant, and Equipment

The accounting basis recognizes acquisitions of property, plant, and equipment as disbursements when paid. The financial statements do not report these as assets.

**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN CASH AND INVESTMENTS

The carrying amount of cash and investments at December 31 follows:

	2004	2003
Demand deposits	\$29,877	\$12,375
Investment - STAR Ohio	88,079	111,891
Total deposits and investments	\$117,956	\$124,266

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

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

3. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Loan	\$108,229	5.00%

In 2000, the Council entered into an agreement with the City of Solon whereby the City purchased a HAZMAT vehicle on behalf of the Council. The total cost of the vehicle was \$204,533 of which the Council paid \$61,500 up front. The remaining principal balance of \$108,229 was amortized through a 13 year loan to be paid in annual principal and interest payment of \$15,227.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	Loan
2005	\$15,227
2006	15,227
2007	15,227
2008	15,227
2009	15,227
2010 – 2013	60,906
Total	\$137,041



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*

Chagrin/Southeast Council of Governments
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146

To the Board of Trustees:

We have audited the financial statements of the Chagrin/Southeast Council of Governments, Cuyahoga County, Ohio, (the Council) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated June 28, 2005, wherein we noted the Council follows the 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 Council's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Council's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Council's management dated June 28, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Council'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 Council's management dated June 28, 2005, we reported an other matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 28, 2005

**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

The comment with an asterisk (*) denotes a comment that was previously reported to management in the December 31, 2002 audit report for which corrective action has not been taken.

FINDING NUMBER 2004-001

Reportable Condition

Accounting for Equipment *

The Council uses funds to procure equipment and is also the recipient of federal and state donated equipment. The equipment is stored at various municipalities of the Council.

A review of the Council's procedures disclosed that an index of equipment owned is not maintained. This may result in assets not being properly safeguarded and accounted for.

We recommend that the Council maintain an index of all equipment purchases and donated from the respective agency. The index should identify the item, date received cost, whether it is donated from a federal or state agency and the municipality where it is stored.

**CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	All expenditures should be supported and approved.	Yes	
2002-002	Segregation of duties for the banking process and financial reporting.	Yes	
2002-003	Accounting for equipment owned by the Council.	No	Not Corrected, repeated in the 2004 and 2003 audit report



**Auditor of State
Betty Montgomery**

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CHAGRIN/SOUTHEAST COUNCIL OF GOVERNMENTS

CUYAHOGA 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
JULY 14, 2005**