



Dave Yost • Auditor of State

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

First Suburbs Consortium of Northeast Ohio
Council of Governments
Cuyahoga County
40 Severance Circle
Cleveland Heights, Ohio 44118

To the Board of Directors:

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 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 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.

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Dave Yost
Auditor of State
Columbus, Ohio

February 7, 2014

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

First Suburbs Consortium of Northeast Ohio
Council of Governments
Cuyahoga County
40 Severance Circle
Cleveland Heights, Ohio 44118

To the Board of Directors:

We have audited the accompanying financial statements of the First Suburbs Consortium of Northeast Ohio, Council of Governments, Cuyahoga, County, Ohio, (the Consortium) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Consortium'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 Consortium 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 Consortium's larger (i.e. major) funds separately. While the Consortium 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 Governments to reformat their statements. The Consortium 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 December 31, 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 Consortium as of February 7, 2014, 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 as of December 31, 2011 and 2010 of the First Suburbs Consortium of Northeast Ohio, Cuyahoga County, Ohio and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Consortium adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, on our consideration of the Consortium'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.



Dave Yost
Auditor of State
Columbus, Ohio

February 7, 2014

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES (CASH BASIS) THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund
Cash Receipts:	
Membership Dues	\$ 26,625
Intergovernmental	24,635
Total Cash Receipts	51,260
Cash Disbursements:	
Salaries and Benefits	41,307
Audit Cost	2,240
Data Processing	2,771
Seminars	2,381
Miscellaneous	2,635
Total Cash Disbursements	51,334
Total Receipts Over/(Under) Disbursements	(74)
Fund Cash Balances, January 1	50,841
Fund Cash Balances, December 31	
Unassigned (Deficit)	50,767
Fund Cash Balances, December 31	\$ 50,767

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

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund
Cash Receipts:	
Membership Dues	\$ 22,500
Intergovernmental	7,694
Total Cash Receipts	30,194
 Cash Disbursements:	
Salaries and Benefits	40,005
Seminars	2,350
Special Events	5,781
Miscellaneous	1,554
Total Cash Disbursements	49,690
 Total Receipts Over/(Under) Disbursements	(19,496)
 Fund Cash Balance, January 1, Restated - See Note 2	70,337
 Fund Cash Balance December 31	\$ 50,841

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

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The First Suburbs Consortium of Northeast Ohio, Council of Governments (the Consortium) is a body politic and corporate established in July, 2000 for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Consortium operates under the direction of a governing board.

The purpose of the Consortium is to provide organizational status to cooperative efforts between the member-municipalities of the Consortium in matters of mutual concern, including but not limited to initiation and support of policies and practices which protect, maintain and redevelop mature communities and other matters which affect health, safety, welfare, education, economic conditions and regional development.

The following criteria are considered upon application to become part of the Consortium:

- Age of Housing Stock – 60% or more housing units constructed prior to 1960.
- Household Density – 1,000 or more households (2000 census) per square mile.
- Low Household Growth – Less than 4% increase in number of households from 1990 to 2000.
- Infrastructure Density – 8 miles or more of streets per square mile of community.
- Modest New Housing – Average value of residential new construction 1994 to 2001 less than 1% of average value of all residential real estate.
- Below Average Appreciation – Total assessed value of real estate increase 1990 to 2001 less than County median.

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

Member Cities are as follows:

Bedford	Bedford Heights	Berea
Brook Park	Brooklyn	Brooklyn Heights
Cleveland Heights	East Cleveland	Euclid
Fairview Park	Garfield Heights	Lakewood
Maple Heights	Parma	Parma Heights
Shaker Heights	South Euclid	University Heights
Warrensville Heights		

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Consortium 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.

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

C. Deposits and Investments

The City of Cleveland Heights, a member, is the fiscal agent for the Consortium and holds the Consortium deposits. The City holds the Consortium's assets in its investment pool, valued at the City's reported carrying amount.

D. Fund Accounting

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

General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

E. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Consortium must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Consortium classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is 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.

3. Committed

The Board of Directors can commit amounts via formal action (resolution). The Consortium must adhere to these commitments unless the Board of Directors amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board of Directors or a Consortium official delegated that authority by resolution, or by State Statute.

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Fund Balance (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Consortium 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.

F. Property, Plant, and Equipment

The Consortium 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.

2. Restatement of Prior Year's Fund Balance

During 2010, it was determined that the beginning cash fund balance was overstated by \$34,958. This was due a cash adjustment for \$35,240 that was identified in 2003 that was never posted to the accounting records and no support for the adjustment can be located. There was also another unsupported cash adjustment for \$282 that was identified in 2009 that was not posted to the accounting records. This restatement had the following effect on cash fund balance as previously reported:

	General Fund
Cash Fund Balance reported as of December 31, 2009	\$105,295
Unsupported Cash Adjustment – 2003	(35,240)
Unsupported Cash Adjustment – 2009	282
Adjusted Cash Fund Balance as of December 31, 2009	\$70,337

3. Retirement Systems

The Consortium's utilizes employees from the City of Cleveland Heights to administer its operations. The employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10 percent, of their gross salaries and the Consortium contributed an amount equaling 14 percent of participants' gross salaries. The City is responsible for collecting all contributions and remits all payments.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

First Suburbs Consortium of Northeast Ohio
Council of Governments
Cuyahoga County
40 Severance Circle
Cleveland Heights, Ohio 44118

To the Board of Directors:

We have audited the financial statements of the First Suburbs Consortium of Northeast Ohio, Council of Governments, Cuyahoga County, Ohio (the Consortium) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 7, 2014, wherein the Consortium followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United State of America. We also noted the Consortium adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" 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 Consortium's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Consortium'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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 timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Consortium'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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Consortium's management in a separate letter dated February 7, 2014.

The Consortium's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Consortium's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors and others within the Consortium. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 7, 2014

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-01

Material Weakness - Unsupported Adjustments

Financial statements should be prepared in accordance with the same uniform guidelines and the amounts must be properly supported. During the 2003 audit of the Consortium, the Independent Public Accounting (IPA) firm performing the audit identified an adjustment increasing cash by \$35,204 that was reflected in the financial statements issued. However, the adjustment was not posted to the Consortium's accounting system and the adjustment was subsequently carried forward from 2004 through 2009 by the IPA firms conducting the audits. Attempts to determine the nature of the adjustment were unsuccessful since the IPA firm's workpapers for 2003 were destroyed. In 2009, the IPA firm posted an adjustment for \$282 to the financial statements issued that was also not posted to the Consortium's accounting system. As a result, we were unable to determine the propriety of the adjustments.

We recommend that all adjustments identified internally and externally be properly documented, approved and posted to the accounting system in a timely manner.

Consortium's Response

We agree with the comment and will take steps to ensure that all necessary audit adjustments are made in a timely manner in the future. To the best of our knowledge we were not made aware of this adjustment and without access to detailed financial records from 2003, it is not possible to address this concern in any greater detail.

FINDING NUMBER 2011-02

Material Noncompliance – Expenditures Not Related to Consortium Operations

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established.

The City of Cleveland Heights (the City) is the fiscal agent for the Consortium and provides the staffing and accounting system. A review of the accounting structure disclosed the fund established for the Consortium also includes a sub-fund for the activity related to the First Suburbs Development Council, (the Development Council), a legally separate Council of Governments. The activity for the Development Council relates to their portion of the salaries for the City's employees who also provide administrative services for the Consortium, as well as some minor operating expenses. This indicates monies for the Consortium are being used to pay obligations for the Development Council and not for purposes for which it was established.

The Development Council's expenditures charged to the Consortium are eventually reimbursed. However, a review of the reimbursement the Consortium received in 2011 disclosed it was for expenses related to 2009 and 2010. This indicates the reimbursements are also not occurring in a timely manner.

We recommend the fund established for the Consortium not include activities related to the operation of the Development Council. The City should establish a separate fund for the Development Council and bill them directly for their portion of the administrative expenses.

**FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO
COUNCIL OF GOVERNMENTS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2011-02
(Continued)**

Consortium's Response

Beginning with fiscal year 2014, the First Suburbs Development Council will provide the revenue necessary to cover the expense rather than reimburse the First Suburbs Consortium after the expense has occurred. A new fund will be established to segregate the funds from the Development Council from the Consortium going forward.



Dave Yost • Auditor of State

FIRST SUBURBS CONSORTIUM OF NORTHEAST OHIO

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
FEBRUARY 18, 2014**