

CLEARWATER COUNCIL OF GOVERNMENTS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Council Members
Clearwater Council of Governments
8200 West State Route 163
Oak Harbor, Ohio 43449

We have reviewed the *Independent Auditor's Report* of the Clearwater Council of Governments, Ottawa County, prepared by Weber O'Brien Ltd., for the audit period January 1, 2004 through December 31, 2004. 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 Clearwater Council of Governments is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 28, 2005

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CLEARWATER COUNCIL OF GOVERNMENTS

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 6
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet - Governmental Funds	9
Reconciliation of Total Governmental Fund Balance to Net Assets Of Governmental Activities	10
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	11
Reconciliation of Net Change In Fund Balance of Governmental Funds to the Change in Net Assets of Governmental Activities	12
Statement of Net Assets - Fiduciary Fund	13
Notes to Financial Statements	14 - 24
Schedule of General and Administrative Expenses	25
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with Governmental Auditing Standards	26 - 27



INDEPENDENT AUDITORS' REPORT

Clearwater Council of Governments
8200 West State Route 163
Oak Harbor, Ohio 43449

We have audited the accompanying financial statements of the governmental activities, its major fund and the aggregate remaining fund information of the Clearwater Council of Governments ("Council") as of and for the year ended December 31, 2004, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund and the aggregate remaining fund information of Clearwater Council of Governments as of December 31, 2004, and the respective changes in financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 2, the Council has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of and for the year ended December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clearwater Council of Governments basic financial statements. The information in the schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Weber - O'Brien Ltd.

June 16, 2005

**Clearwater Council of Governments
Management's Discussion and Analysis
For Year Ended December 31, 2004
Unaudited**

The following discussion and analysis provides a summary overview of the financial activities of Clearwater Council of Governments (Council) for the year ended December 31, 2004. This information should be read in conjunction with the basic financial statements included in this report.

Financial Highlights

- Assets exceed liabilities by \$3,139,836 as of December 31, 2004
- Net Assets Increased by \$207,891 as of December 31, 2004

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Council's financial statements. The Council's basic financial statements are the government-wide statements which consist of the Statement of Net Assets and the Statement of Activities; and the fund statements, which consist of the Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balance; and the accompanying notes to the financial statements, which provide additional information and detail regarding the financial statements. The Council uses only a general fund to report its activities.

The government-wide statements report information about the Council as a whole using accounting similar to those used by private sector companies. These financial statements, which provide both long-term and short-term information about the Council's overall financial status, include all assets, liabilities and activities of the Council.

The fund statements report funds that the Council uses to keep track of specific sources of funding and spending for particular purposes. These statements focus on individual parts of the Council, reporting these operations in more detail than the government-wide financial statements. The fund financial statements use modified accrual accounting, which measures cash and all other financial assets that generally can be readily converted to cash.

The fiduciary statements report Agency funds that the Council holds on behalf of other parties.

The reconciliations on pages 10 and 12 explain the difference between the two bases of accounting.

Financial Analysis of the Council's Financial Position and Results of Operations

Recall that the Statement of Net Assets provides the perspective of the Council as a whole. This is the first year for adoption of GASB Statement Number 34.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2004
Unaudited**

The tables below provide a summary of the Council's financial position and operations for the years ended December 31, 2004 and 2003, respectively. The Council implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the year ended on December 31, 2004.

Condensed Statement of Net Assets – Government-Wide:

	December 31		Dollar Change	Percent Change
	2004	2003 (as restated)		
<u>Assets</u>				
Cash	\$ 39,016	\$ 19,071	\$ 19,945	105%
Contract Receivable	28,423	67,695	(39,272)	(58%)
Investments	3,444,171	3,195,034	249,137	8%
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>5,379</u>	<u>5,493</u>	(114)	(2%)
Total Assets	3,516,989	3,287,293	229,696	7%
<u>Liabilities</u>				
Accounts Payable	162,924	169,268	(6,344)	(4%)
Deferred Revenue	197,338	165,673	31,665	19%
Accrued Vacation	<u>16,891</u>	<u>20,407</u>	(3,516)	(17%)
Total Liabilities	377,153	355,348	21,805	6%
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	5,379	5,493	(114)	(2%)
Unrestricted/Undesignated	<u>3,134,457</u>	<u>2,926,224</u>	<u>208,005</u>	<u>7%</u>
Total Net Assets	<u>\$3,139,836</u>	<u>\$2,931,717</u>	<u>\$207,891</u>	<u>7%</u>

Discussion on Significant Changes in the above Statement of Net Assets – Government-Wide:

The 105% increase in cash is due to cash flow timing.

The 58% decrease in contract receivables is due to the receivables being paid in a more timely fashion by funding sources in 2004 compared to 2003.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2004
Unaudited**

Discussion on Significant Changes in the above Statement of Net Assets – Government-Wide, Continued:

The 19% increase in deferred revenue is due to the Clearwater COG offering two additional services to the county boards in 2004, for which the revenue was received at year end but the services had not yet been provided.

The following is a table that summarizes the changes in revenues and expenses for the Clearwater COG between years 2004 and 2003.

Condensed Statement of Activities – Government-Wide:

	December 31		Dollar Change	Percent Change
	2004	2003 (as restated)		
<u>Revenues</u>				
Waiver Revenue	\$ 877,529	\$1,123,472	\$(245,943)	(22%)
Administrative Fees	10,647	6,118	4,529	74%
Medicaid	176,586	176,915	(329)	(0%)
Supported Living	218,253	53,980	164,273	304%
All Other Revenue	<u>118,196</u>	<u>170,029</u>	<u>(51,833)</u>	<u>(30%)</u>
Total Revenue	1,401,211	1,530,514	(129,303)	(8%)
<u>Expenditures</u>				
Program	775,882	772,817	3,065	0%
Administrative	<u>417,210</u>	<u>412,587</u>	<u>4,623</u>	<u>1%</u>
Total Expenditures	<u>1,193,092</u>	<u>1,185,404</u>	<u>7,688</u>	<u>1%</u>
Change in Net Assets	\$ 208,119	\$ 345,110	\$(136,991)	(40%)

Discussion on Significant Changes in the above Statement of Activities – Government-Wide:

The 22% decrease in Waiver Revenue is due to a decrease in the amount of money the county boards received from the state compared to 2003.

The 74% increase in Administrative Fees is due to the counties enrolling additional individuals onto waivers along with Clearwater Council of Governments offering two additional services in 2004.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2004
Unaudited**

The 304% increase in Supported Living Revenue is due to increased funding received from a county for supportive living services.

The 30% decrease in Other Revenue is due to the receipt of a waiver administration cost settlement in 2003. There were no cost settlements received in 2004.

Condensed Statement of Net Assets – Fiduciary Fund:

	December 31		Dollar Change	Percent Change
	2004	2003		
<u>Assets</u>				
Investments	<u>\$123,641</u>	<u>\$88,770</u>	<u>34,871</u>	<u>39%</u>
Total Assets	123,641	88,770	34,871	39%
<u>Liabilities</u>				
Due to Others	<u>123,641</u>	<u>88,770</u>	<u>34,871</u>	<u>39%</u>
Total Liabilities	123,641	88,770	34,871	39%
Total Net Assets	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>0%</u>

Discussion on Significant Changes in the above Statement of Net Assets – Fiduciary Fund:

The 39% increase in Investments and the offsetting Due to Others is due to the addition of the counties current year contribution to the Medicaid Risk Reserve Fund.

Economic Factors

The Council is not aware of any economic factors that would have an impact on the Council in the upcoming year.

Contacting the Council's Financial Management

This financial report is designed to provide a general overview of the Council's finances for all interested parties. Questions and requests for additional information regarding this report should be addressed to the Director of Fiscal Operations, Clearwater Council of Governments, 8200 W. SR 163, Oak Harbor, OH 43449, or by telephone at (419) 898-8264.

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
December 31, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 39,016
Contracts Receivable	28,423
Investments	3,444,171
Depreciable Capital Assets, Net of Accumulated Depreciation	5,379
TOTAL ASSETS	3,516,989
 LIABILITIES	
Accounts Payable	162,924
Deferred Revenue	197,338
Accrued Vacation	16,891
TOTAL LIABILITES	377,153
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,379
Unrestricted	3,134,457
TOTAL NET ASSETS	\$ 3,139,836

**"The Accompanying Notes are an Integral
Part of These Financial Statements"**

**CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004**

	<u>Expenses</u>	<u>Program Revenue Operating</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
GOVERNMENTAL ACTIVITIES			
Waiver Revenue	\$ 405,498	\$ 877,529	\$ 472,031
Medicaid	176,586	176,586	-0-
Supported Living	193,798	218,253	24,455
General and Administrative	<u>417,210</u>	<u>-0-</u>	<u>(417,210)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,193,092</u>	<u>\$ 1,272,368</u>	79,276

General Revenues	
Miscellaneous Services	73,489
Interest	44,707
Administrative Fees	<u>10,647</u>
Total General Revenues	<u>128,843</u>

Change in Net Assets	208,119
Net Assets Beginning of Year	<u>2,931,717</u>
Net Assets End of Year	<u>\$ 3,139,836</u>

**"The Accompanying Notes are an Integral
Part of these Financial Statements"**

**CLEARWATER COUNCIL OF GOVERNMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2004**

	General Fund
ASSETS	
Cash	\$ 39,016
Contracts Receivable	28,423
Investments	3,444,171
TOTAL ASSETS	\$ 3,511,610
 LIABILITIES	
Accounts Payable	\$ 162,924
Deferred Revenue	197,338
Accrued Vacation	16,891
TOTAL LIABILITIES	377,153
 FUND BALANCE	
Unreserved	3,134,457
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,511,610

**"The Accompanying Notes are an Integral
Part of These Financial Statements"**

**CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2004**

Total Governmental Fund Balances	\$ 3,134,457
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
 Capital Assets used in governmental activities are not resources and therefore are not reported in the funds	 <u>5,379</u>
 Net Assets of Governmental Activities	 <u><u>\$ 3,139,836</u></u>

**"The Accompanying Notes are an Integral
Part of These Financial Statements"**

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - GOVERNMENTAL FUNDS
 Year Ended December 31, 2004

	<u>General Fund</u>
REVENUE	
Waiver Revenue	\$ 877,529
Administrative Fees	24,492
Medicaid	176,586
Other Revenue	59,644
Supported Living Revenue	218,253
Interest Revenue	<u>44,707</u>
TOTAL REVENUE	1,401,211
 EXPENDITURES	
Program	775,882
Adminstrative	<u>417,096</u>
TOTAL EXPENDITURES	<u>1,192,978</u>
 NET CHANGE IN FUND BALANCE	 208,233
 FUND BALANCE - BEGINNING OF YEAR	 <u>2,926,224</u>
 FUND BALANCE - END OF YEAR	 <u><u>\$ 3,134,457</u></u>

"The Accompanying Notes are an Integral
 Part of These Financial Statements"

**CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATION OF NET CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE CHANGE IN NET
ASSETS OF GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2004**

Net Change in Fund Balances - Total Governmental Funds	\$ 208,233
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

(114)

Change in Net Assets of Governmental Activities	<u>\$ 208,119</u>
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**"The Accompanying Notes are an Integral
Part of These Financial Statements"**

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS - FIDUCIARY FUND
December 31, 2004

	Governmental <u>Activities</u>
ASSETS	
Investments	\$ 123,641
TOTAL ASSETS	<u>123,641</u>
LIABILITIES	
Due to Others	<u>123,641</u>
TOTAL LIABILITES	<u>123,641</u>
TOTAL NET ASSETS	<u><u>\$ -0-</u></u>

"The Accompanying Notes are an Integral
Part of These Financial Statements"

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Clearwater Council of Governments ("Council") was organized in 1996 under Chapter 167 of the Ohio Revised Code. The Council is authorized to administer programs on behalf of the following eight county boards of mental retardation and developmental disabilities in North-Central Ohio: Crawford; Erie; Huron; Marion; Morrow; Ottawa; Sandusky; and Seneca. The Council, pursuant to its bylaws, contracts for services with providers for the use of funds for specific programs awarded from the State of Ohio and is responsible for monitoring the use of the funds by such providers.

The Council, being a public body, is tax exempt under the laws of Ohio.

Basis of Presentation

The financial statements of the Council have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Council uses funds to report its financial position and the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Council activities or functions. The Council has one governmental fund and one fiduciary fund.

Fund Financial Statements

Fund financial statements report detailed information about the Council. The focus of Governmental Fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the sources and uses of current financial resources.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental Fund Types

General Fund: This fund accounts for the general operating revenues and expenditures of the Council not required to be recorded in another fund. The primary revenue sources are state of Ohio and other funding.

Fiduciary Fund Types

Trust and Agency Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The Council's only Fiduciary Fund is an Agency Fund that is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Council's Agency Fund is comprised of Medicaid Risk Reserve Funds held on behalf of various counties.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Council as a whole, and does not include the fiduciary fund. These statements include the financial activities of the Council including depreciation of capital assets.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental financial statements therefore include a reconciliation with brief explanations to better identify the relationship between government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the Council's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Council, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the Council.

Budgetary Process

The Council is not required to prepare a budget in accordance with the Ohio Revised Code. Accordingly, a statement of actual to budget has not been included in these financial statements.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expense are recognized in the accounts and reported in the financial statements, and relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the governmental funds. Revenues are recognized when they become both measurable and available to finance expenditures of the current period, generally within 60 days of fiscal year end, while expenditures are generally recognized when the related fund liability is incurred.

The Council reports deferred revenues on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when they are incurred.

Cash and Investments

The Council has invested funds in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

**CLEARWATER COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Year Ended December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets

Capital Assets are recorded at cost and expensed at the time of purchase in the governmental funds. These assets are reported in the governmental-wide statement of net assets, but they are not reported in the fund financial statements. Costs that provide a future benefit to the Council are capitalized on the governmental-wide financial statement. Depreciation has been provided on a straight-line basis over estimated lives of 5 years.

A summary of the capital assets activity for the year ended December 31, 2004 is as follows:

	Balance at			Balance at
	<u>January 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2004</u>
Computer				
Equipment	\$ 7,723	\$ -0-	\$ -0-	\$ 7,723
Accumulated				
Depreciation	(2,230)	(114)	-0-	(2,344)
NET	\$ <u>5,493</u>	(\$ <u>114</u>)	\$ <u>-0-</u>	\$ <u>5,379</u>

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

Change in Accounting Principle

GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements were adopted by the Council effective January 1, 2004.

GASB 34 creates new basic financial statements for reporting on the Council’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE, Continued

statements which present information for individual major funds rather than by fund type.

The government-wide financial statements present the Council's programs as governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for Governmental Funds at December 31, 2003 caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balance

The change to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities are as follows:

Fund Balance - December 31, 2003	\$2,926,224
Capital Assets - Net	<u>5,493</u>
Net Assets - January 1, 2004	<u>\$2,931,717</u>

NOTE 3 - CASH AND INVESTMENTS

Legal Requirements

State statutes classify monies held by the Council into three categories.

Active deposits are public deposits designed to meet the current demands on the Council. They may be deposited in a commercial account that is payable or withdrawable on demand, a negotiable order of withdrawal account, or a money market deposit account.

Interim deposits are deposits of interim monies. Interim monies are public monies held after the award of inactive deposits has been made, which are in excess of the aggregate amount of the inactive deposits as estimated by the Board prior to the period of designation and which the management or the Board finds should not be deposited as active or inactive deposits because such monies will not be needed for immediate use but will be needed before the end of the period of destination.

The Board or management may either deposit or invest interim monies, provided that the investments will mature or are redeemable within five years from the date of purchase or are matched to a specific litigation or debt of the subdivision.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 3 - CASH AND INVESTMENTS, Continued

The obligations which are eligible for investment or deposit are:

1. United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or instrumentality.
3. Interim deposits in eligible institutions.
4. Bond and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in 1. and 2. above and repurchase agreements secured by such obligations.
6. The State Treasurer's investment pool (STAR Ohio).

Inactive deposits are those that are not expected to be needed during the two-year period of designation.

Deposits

The Council's deposits are categorized to give an indication of the level of credit risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Council's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Council's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Council's name. The following show the Council's deposits by category.

Category 1: As of December 31, 2004 the carrying amount of the Council's deposits was \$39,016 and the bank balance was \$47,238.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004**

NOTE 3 - CASH AND INVESTMENTS, Continued

Investments

The Council's investments are required to be categorized to give an indication of the level of risk assumed by the Council at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Council or its agent in the Council's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Council's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Council's name. STAR Ohio is an unclassified investment because it is not evidenced by securities that exist in physical or book entry form. As of December 31, 2004, the Council's other investments are categorized as follows:

	Category of <u>Risk 3</u>	Fair <u>Value</u>
Federal Agency Securities	\$101,230	\$100,129
Money Market	<u>457,189</u>	<u>457,190</u>
Total	<u>\$558,419</u>	<u>\$557,319</u>

The carrying amount and fair value of the Council's investments at December 31, 2004 was as follows:

	<u>Cost</u>	Fair <u>Value</u>
Funds on Deposit with STAR Ohio	\$2,886,852	\$2,886,852
Federal Agency Securities	101,230	100,129
Money Market	<u>457,189</u>	<u>457,190</u>
Total Investments	<u>\$3,445,271</u>	<u>\$3,444,171</u>

In late 2003, the Council began holding funds on behalf of several counties as required under the Medicaid Risk Reserve. The amount in this reserve is from the respective counties and is to be used for future extraordinary costs when a county board is unable to pay the non-federal share of Medicaid expenditures. Each year the counties are required to pay into their respective account an amount based on 2% of their respective total non-federal share of Medicaid expenditures for home and community-based services for residents of the county for the most recently completed fiscal accounting period. This annual amount is calculated by the State

**CLEARWATER COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Year Ended December 31, 2004**

NOTE 3 - CASH AND INVESTMENTS, Continued

and sent to the counties. The counties then remit the letter from the state along with a check to the Council. These amounts belong to the respective counties and are to be set aside and invested by the Council. In early 2004, the funds were invested. The amount received by the Council for the counties totaled \$35,111 for the year ended December 31, 2004. The amount invested on behalf of the counties' Medicaid Risk Reserve totaled \$123,641 at December 31, 2004. The full amount is invested in Money Market Accounts.

	<u>Cost</u>	<u>Fair Value</u>
Money Market	\$123,641	\$123,641

The Medicaid Risk Reserve funds are reported in a Fiduciary Fund and have an offsetting liability as the funds do not belong to the Council. The balance in the liability was \$123,641 at December 31, 2004.

NOTE 4 - RETIREMENT AND DEFERRED COMPENSATION PLANS

The employees of the Council are covered by the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability 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 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The 2004 employer contribution rate for Local Government employers was 13.55% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Council's contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$48,770, \$56,760 and \$36,505, respectively. All required contributions were made prior to each of those year ends.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 4 - RETIREMENT AND DEFERRED COMPENSATION PLANS,

Continued

The Council also participates in a statewide deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457, whereby an employee who elects to participate may defer the receipt of a specified amount of compensation. Such deferred compensation is payable upon retirement, death, disability, termination of employment, or upon financial hardship. The Council has entered into an agreement with the Ohio Public Employees Deferred Compensation Board to act as the Council's agent and administer the Deferred Compensation Plan. The plan Agreement states that the Council and the Ohio Public Employees Deferred Compensation Board have no liability for losses under the plan with the exception of fraud or wrongful taking.

GASB 32 - "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," requires that for deferred compensation plans to be eligible plans under IRC Section 457, all assets and income of the plan must be held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 5 - POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate was 13.55% of covered payroll and 4.0% was the portion that was used to fund health care.

OPEB is financed through employer contributions and investment earnings thereon. OPERS has elected advance funding of its OPEB's on an actuarially determined basis. The most recent actuarial valuation of OPERS' OPEB liability was performed as of December 31, 2003. The following significant actuarial assumptions were used in this valuation:

Funding Method An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 5 - POST-EMPLOYMENT BENEFITS, Continued

Assets Valuation Method All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%.

Health Care Costs Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1%-6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

The number of active contributing participants of OPERS as of December 31, 2004 was 369,885. The contribution rates discussed above are the actuarially determined contribution requirements for OPERS. The Retirement System's net assets available for OPEB has an actuarial value of \$10.5 billion as of December 31, 2003. The actuarial accrued liability as of that date was \$26.9 billion resulting in an unfunded actuarial accrued liability of \$16.4 billion.

NOTE 6 - VACATION POLICY

The Council has a formal vacation policy. The policy provides paid vacation for full time employees ranging from two to five weeks per year depending on length of service. A total of twelve months of service is required before eligibility for two weeks of vacation is established. Accrued vacation pay at December 31, 2004 amounted to \$16,891.

NOTE 7 - LEASE COMMITMENTS

The Council leases office space for \$2,900 per month, on a month-to-month basis. The total rent expense for the year ended December 31, 2004 was approximately \$34,600.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2004

NOTE 8 - REVENUE CLASSIFICATION

For comparability purposes of financial statement reporting in future years, the Council has elected to combine Residential Facility Waiver revenue with Individual Options Waiver revenue into one reporting program effective December 31, 2004. The combined program shows as Waiver Revenue on both the Government-wide Statement of Activities and the Fund Statement of Revenue, Expenditures and Changes in Fund Balance. This decision was made based on the State merging the two programs effective July 1, 2005.

NOTE 9 - COMPLIANCE WITH GRANTS AND CONTRACTS

The Council serves as a pass through agency for the state of Ohio's allocations to its provider agencies. Provider agencies are generally required to comply with the terms and conditions specified in the provider contracts. Contracts permit the provider agencies one full year from the date services were provided to report reimbursements.

Ohio has the authority to audit the provider agencies' compliance with such contracts and grants. Any disallowed claims resulting from such audits would require repayment by the provider. Management of the Council is not aware of any material disallowed or questioned costs due to noncompliance.

NOTE 10 - RISK MANAGMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council maintains comprehensive insurance coverage with a private carrier for building contents and general liability. Contents are fully insured. There have been no claims in each of the past three years. There have been no reductions in insurance coverage from the prior year.

NOTE 11 - CONTINGENCIES

In the normal course of operations, the Council may be subject to claims. At December 31, 2004, the Council was involved in one matter. While the outcome of the above matter cannot be presently determined, management believes that its ultimate resolution will not have a material adverse effect on the financial statements.

The waiver administration revenue is subject to retroactive adjustment which could result in increases or decreases in future revenue upon settlement. The Council has not been notified of any cost settlements in 2004 and is unable to determine the amount, if any, of the cost settlement amounts for the open years of 2003 and 2004.

CLEARWATER COUNCIL OF GOVERNMENTS
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
Year Ended December 31, 2004

Salaries, Wages and Related Taxes and Benefits	\$ 302,070
Travel, Seminars and Training	37,736
Rent	34,646
Professional Services	15,926
Computer Equipment	9,266
Insurance - Liability	6,700
Telephone	5,117
Office	3,957
Advertising	863
Dues and Subscriptions	815
Depreciation	<u>114</u>
 TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	 <u><u>\$ 417,210</u></u>



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**INDEPENDENT AUDITORS' 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**

Clearwater Council of Governments
8200 West State Route 163
Oak Harbor, Ohio 43449

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Clearwater Council of Governments as of and for the year ended December 31, 2004, which collectively comprise the council's basic financial statements and have issued our report thereon dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

In planning and performing our audit, we considered Clearwater Council of Governments 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 the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clearwater Council of Governments 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*.

Clearwater Council of Governments
Page Two

This report is intended solely for the information and use of management, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.

Weber O'Brien Ltd.
June 16, 2005



**Auditor of State
Betty Montgomery**

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CLEARWATER COUNCIL OF GOVERNMENTS

OTTAWA 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 13, 2005**