

CLEARWATER COUNCIL OF GOVERNMENTS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012



Dave Yost • Auditor of State

Board of Directors
Clearwater Council of Governments
235 N. Toussaint South Road
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, 2012 through December 31, 2012. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

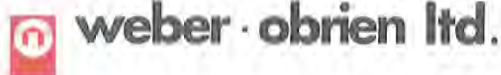
September 27, 2013

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CLEARWATER COUNCIL OF GOVERNMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clearwater Council of Governments
235 N. Toussaint South Road
Oak Harbor, OH 43449

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clearwater Council of Governments ("Council") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Clearwater Council of Governments as of December 31, 2012, and the respective changes in financial position – modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. Management's discussion and analysis includes tables of net position, changes in net position, and governmental activities. These tables and the schedule of general and administrative disbursements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The tables included in management's discussion and analysis and the schedule of general and administrative disbursements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the tables included in management's discussion and analysis and the schedule of general and administrative disbursements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other than the aforementioned procedures applied to the tables, all other information included in management's discussion and analysis has not been subjected to the auditing procedures in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Robert O'Brien".

July 17, 2013

Clearwater Council of Governments
Management's Discussion and Analysis
For Year Ended December 31, 2012
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, 2012, within the limitations of the Council's modified cash basis of accounting. This information should be read in conjunction with the basic financial statements and notes included in this report.

Financial Highlights

Net position of governmental activities decreased \$1,075,143 or 16%. This decrease is due to one county discontinuing membership with the Council in July 2012, the Council paying approximately \$240,000 more in waiver match and approximately \$185,000 more for the Bridges to Transition program in 2012 as compared to 2011, along with the Council decreasing management fees charged to the member counties in July 2012 and paying approximately \$64,000 for the Good Life Trainings, a new program, in 2012.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Council's modified cash basis of accounting.

Report Components

The statement of net position and the statement of activities provide information about the cash activities of the Council as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Council as a way to segregate and keep track of money specified for a particular purpose. The Council uses only a general fund to report its activities.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Council has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Council's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2012
Unaudited

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Council as a Whole

The statement of net position and the statement of activities reflect how the Council did financially during 2012, within the limitations of modified cash basis accounting. The statement of net position presents the cash balance, investments and capital assets of the governmental activities of the Council at year end. The statement of activities compares cash disbursements and program receipts for each program or function of the Council's governmental activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self financing on a modified cash basis or draws from the general receipts of the Council.

These statements report the Council's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Council's financial health. Over time, increases or decreases in the Council's cash position is one indicator of whether the Council's financial health is improving or deteriorating. When evaluating the Council's financial condition, you should also consider other nonfinancial factors as well.

Reporting the Council's Most Significant Funds

Fund financial statements provide detailed information about the Council's major funds - not the Council as a whole. The Council establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The only funds of the Council are the governmental funds.

Governmental Funds - The Council's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Council's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Council's programs. Significant governmental funds are presented on financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Council's only governmental fund is the General Fund. The programs reported in

Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2012
Unaudited

governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

The Council as a Whole

Table 1 provides a summary of the Council's net position for 2012 compared to 2011 on the modified cash basis:

(Table 1)
Net Position

	<u>Governmental Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets				
Cash	\$ 128,988	\$ 69,895	\$ 59,093	85%
Investments	5,580,267	6,716,063	(1,135,796)	(17%)
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>22,260</u>	<u>20,700</u>	<u>1,560</u>	8%
Total Assets	<u>\$5,731,515</u>	<u>\$6,806,658</u>	<u>(\$1,075,143)</u>	(16%)
Net Position				
Invested in Capital Assets	\$ 22,260	\$ 20,700	\$ 1,560	8%
Unrestricted	<u>5,709,255</u>	<u>6,785,958</u>	<u>(1,076,703)</u>	(16%)
Total Net Position	<u>\$5,731,515</u>	<u>\$6,806,658</u>	<u>(\$1,075,143)</u>	(16%)

As mentioned previously, net position of governmental activities decreased \$1,075,143, or 16% during 2012. The primary reasons contributing to this decrease are as follows:

- The 85% increase in cash is due to cash flow timing of receipts and disbursements and the receipt of cash for the maturity of one CD during the year for \$100,000.
- The 17% decrease in investments is due to one county discontinuing membership with the Council in July 2012, the Council paying approximately \$240,000 more in waiver match and approximately \$185,000 more for the Bridges to Transition program in 2012 as compared to 2011, along with the Council decreasing management fees charged to the member counties in July 2012 and paying approximately \$64,000 for Good Life Trainings, a new program, in 2012.

Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2012
Unaudited

Table 2 reflects the changes in net position on the modified cash basis in 2012 and 2011 for governmental activities.

(Table 2)
Changes in Net Position

	<u>Governmental Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Receipts				
Program Receipts:				
Waiver Revenue	\$ 632,756	\$ 972,202	(\$ 339,446)	(35%)
Other Revenue	428,205	450,099	(21,894)	(5%)
Medicaid Revenue	374,576	1,324,636	(950,060)	(72%)
Supported Living Revenue	<u>193,282</u>	<u>281,624</u>	(88,342)	(31%)
Total Program Receipts	1,628,819	3,028,561	(1,399,742)	(46%)
General Receipts:				
Interest Revenue	<u>22,655</u>	<u>32,838</u>	(10,183)	(31%)
Total Receipts	1,651,474	3,061,399	(1,409,925)	(46%)
Disbursements:				
Program	2,637,491	1,987,640	649,851	33%
Administrative	<u>89,126</u>	<u>84,327</u>	<u>4,799</u>	6%
Total Disbursements	<u>2,726,617</u>	<u>2,071,967</u>	<u>654,650</u>	32%
Change in Net Position	<u>(\$1,075,143)</u>	<u>\$ 989,432</u>	<u>(\$2,064,575)</u>	(209%)

For the year ended December 31, 2012:

- The 35% decrease in Waiver Revenue is due to the Council decreasing management fees charged to the member counties in July 2012, one county no longer continuing their membership with the Council in July 2012, as well as the Council no longer receiving the Waiver Administration Subsidy from the State of Ohio starting in July 2012.
- The 72% decrease in Medicaid Revenue is due to the Council receiving approximately \$759,000 in additional Medicaid Administrative Claiming (MAC)/Waiver Administrative Claiming (WAC) reconciliation funds from the State of Ohio in 2011 for the years 2005-2010, as well as receiving approximately \$120,000 more MAC funds in 2011 compared to 2012 in quarterly MAC payments. In 2011, the Council received five quarterly (July 2010 - September 2011) MAC payments.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2012
Unaudited**

While in 2012, the Council received three quarterly (October 2011 – June 2012) MAC payments.

- The 31% decrease in Supported Living Revenue is due to the Council no longer receiving the Supported Living Subsidy for one county as well as the costs for supported living individuals in one county decreasing from 2011 to 2012.
- The 31% decrease in Interest Revenue is due primarily to a decrease in interest received on matured CD's in 2012 compared to 2011. There were three CD's that matured in 2011 in which approximately \$16,800 was received in interest compared to one CD that matured in 2012 in which approximately \$7,100 was received in interest.
- The 33% increase in Program Disbursements is due primarily to the Council paying approximately \$240,000 more in waiver match and approximately \$185,000 more for the Bridges to Transition program in 2012 compared to 2011. As well as paying approximately \$64,000 for the Good Life Trainings in 2012, a new program.

General Fund

General fund balance decreased \$1,076,703 in 2012. This decrease is due primarily to the same reasons for the decrease in net position, as previously discussed.

Capital Assets

At December 31, 2012, the Council had \$22,260 (net of accumulated depreciation) invested in capital assets for governmental activities.

Economic Factors

It should be noted that future receipts could be reduced due to the possibility of State budget cuts.

Contacting the Council's Financial Management

This financial report is designed to provide a general overview of the Council's finances and to reflect the Council's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be addressed to the Director of Fiscal Operations, Clearwater Council of Governments, 235 N. Toussaint South Road, Oak Harbor, OH 43449, or by telephone at (419) 898-8264.

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 December 31, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 128,988
Investments	5,580,267
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>22,260</u>
TOTAL ASSETS	<u>\$ 5,731,515</u>
 NET POSITION	
Invested in Capital Assets	\$ 22,260
Unrestricted	<u>5,709,255</u>
TOTAL NET POSITION	<u>\$ 5,731,515</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
Year Ended December 31, 2012

	Cash <u>Disbursements</u>	Program Cash Receipts <u>Charges for Services</u>	Net (Disbursements) Receipts and Changes <u>in Net Position</u>
GOVERNMENTAL ACTIVITIES			
Community Support	\$ 2,637,491	\$ 1,552,240	(\$ 1,085,251)
General and Administrative	<u>89,126</u>	<u>76,579</u>	<u>(12,547)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 2,726,617</u>	<u>\$ 1,628,819</u>	(1,097,798)

General Receipts	
Interest	<u>22,655</u>
Total General Receipts	<u>22,655</u>
Change in Net Position	(1,075,143)
Net Position Beginning of Year	<u>6,806,658</u>
Net Position End of Year	<u>\$ 5,731,515</u>

"The Accompanying Notes are an Integral
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CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General Fund</u>
ASSETS	
Cash	\$ 128,988
Investments	<u>5,580,267</u>
TOTAL ASSETS	<u>\$ 5,709,255</u>
 FUND BALANCE	
Unassigned	<u>\$ 5,709,255</u>
TOTAL FUND BALANCE	<u>\$ 5,709,255</u>

"The Accompanying Notes are an Integral
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CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
December 31, 2012

Total Governmental Fund Balance	\$ 5,709,255
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Amounts reported for governmental activities in the statement of net position are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the fund.	<u>22,260</u>
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Net Position of Governmental Activities	<u>\$ 5,731,515</u>
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CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2012

	<u>General Fund</u>
RECEIPTS	
Waiver Revenue	\$ 632,756
Other Revenue	428,205
Medicaid	374,576
Supported Living Revenue	193,282
Interest Revenue	<u>22,655</u>
TOTAL RECEIPTS	<u>1,651,474</u>
DISBURSEMENTS	
Program	2,638,973
Administrative	<u>89,204</u>
TOTAL DISBURSEMENTS	<u>2,728,177</u>
NET CHANGE IN FUND BALANCE	(1,076,703)
FUND BALANCE - BEGINNING OF YEAR	<u>6,785,958</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 5,709,255</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
POSITION OF GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2012

Net Change in Fund Balance - Total Governmental Funds (\$ 1,076,703)

*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.

1,560

Change in Net Position of Governmental Activities (\$ 1,075,143)

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

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN MODIFIED CASH BASIS FUND NET POSITION
 FIDUCIARY FUND
 Year Ended December 31, 2012

	<u>Agency</u>
RECEIPTS	
Receipts on behalf of social security beneficiaries	\$ 269,427
DISBURSEMENTS	
Disbursements on behalf of social security beneficiaries	<u>272,798</u>
NET CHANGE IN NET POSITION	(3,371)
NET POSITION - BEGINNING OF YEAR	<u>27,243</u>
NET POSITION - END OF YEAR	<u>\$ 23,872</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2012

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 developmental disabilities in North-Central Ohio: Crawford, Erie, Huron, Marion, Morrow, Ottawa, Seneca and Wyandot. 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 are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from generally accepted accounting principles (GAAP) in the United States. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent applicable to the modified cash basis of accounting. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Council's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Council as a whole. These statements include the financial activities of the Council including depreciation of capital assets.

The statement of net position presents the cash balance, investments and capital assets of the governmental activities of the Council at year end. The statement of activities compares disbursements and program receipts for each program or function of the Council's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Council is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

Government-Wide Financial Statements, Continued

Receipts which are not classified as program receipts are presented as general receipts of the Council, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self financing on a modified cash basis or draws from the general receipts of the Council.

Fund Financial Statements

During the year, the Council segregates transactions related to certain Council functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Council at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Council uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Council has one governmental fund and one fiduciary fund.

Governmental Funds

Governmental funds are those through which most governmental functions of the Council are financed. The following is the Council's only governmental fund:

General - The General Fund accounts for all financial resources of the Council, except those required to be accounted for in another fund. The primary financial resources are State of Ohio and other funding.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The agency fund is the Council's only fiduciary fund. The agency fund is purely custodial in nature and is used to account for assets held by the Council for county boards of developmental disabilities for which the County acts as a fiscal agent.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting

The Council's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Council's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Council are described in the appropriate section of this note.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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.

Cash and Investments

The Council considers all demand deposits in banks to be cash equivalents.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2012, the Council invested in certificates of deposit, federal agency securities, money market funds, STAR Plus and STAR Ohio. Certificates of deposit and federal agency securities are valued at cost. The Council's money market fund investments are recorded at the amount reported by PNC at December 31, 2012. STAR Ohio and STAR Plus are investment pools, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio and STAR Plus are not registered with the SEC as investment companies, but do operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio and STAR Plus are valued at STAR Ohio and STAR Plus's share price, which is the price the investment could be sold for on December 31, 2012.

Interest receipts credited to the General Fund during 2012 were \$22,655.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets

The Council's general capital assets are capital assets which are associated with and arise from governmental activities. They result from disbursements from the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets in excess of \$500, that provide a future benefit to the Council, are capitalized at cost. Depreciation has been provided on a straight-line basis over estimated lives of 5 years.

Accumulated Leave

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

Employer Contributions to Cost-Sharing Pension Plans

The Council recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 4 and 5, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

The Council's modified cash basis financial statements do not report long-term obligations. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

Net Position

Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Components of net position are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Council has no restricted components of net position.

The Council's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Council is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components - nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted - Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties or by law through constitutional provisions or enabling legislation.

Committed - Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Council's highest level of decision making authority.

Assigned - Assigned fund balance consists of amounts that are constrained by the Council's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes.

The Council 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.

The Council has no nonspendable, restricted, committed or assigned fund balances.

Estimates

The modified cash basis of accounting used by the Council requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

Management has evaluated events and transactions from December 31, 2012 through July 17, 2013, for possible recognition or disclosure in these financial statements. This date is the date these financial statements were available to be issued. Management concluded there were no subsequent events requiring recognition or disclosure.

NOTE 2 - CASH AND INVESTMENTS

There are no legal restrictions on the Council's investments or deposits. However, the Council has adopted as their investment policy the legal restrictions imposed by the Ohio Revised Code on certain political subdivisions.

Monies held by the Council are classified into three categories.

Active monies are monies determined to be necessary to meet current demands upon the Treasury. Active monies must be maintained either as cash in the Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are deposits that the Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Council can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CLEARWATER COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Year Ended December 31, 2012**

NOTE 2 - CASH AND INVESTMENTS, Continued

3. Interim deposits in eligible institutions. Such deposits are to be awarded to the depository offering to pay the highest permissible rate of interest. The treasurer or the board is to determine the periods for which such deposits are to be made;
4. Bonds 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; and
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus).

The Council may also enter into overnight or term repurchase agreements consisting of an agreement to repurchase any of the securities listed in 1. or 2. above.

Depository Credit Risk

As of December 31, 2012, the carrying amount of the Council's deposits was \$1,452,860 and the bank balance was \$1,508,298. Of the bank balance, \$1,508,298 is insured by the Federal Deposit Insurance Corporation.

Investments

As of December 31, 2012, the Council had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Carrying Value</u>
STAR Plus	N/A	\$3,457,339
Federal Agency Securities:		
Federal National Mortgage Association Bond	10/26/2015	167,135
Federal Farm Credit Bank Bond	04/18/2016	160,013
Federal Farm Credit Bank Bond	10/24/2016	160,000
Federal Home Loan Bank Bond	05/08/2017	160,000
Federal National Mortgage Association Bond	11/07/2017	170,000
Money Market Fund	N/A	5,780
Total Investments		<u>\$4,280,267</u>

Interest Rate Risk - Council policy requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Council, and that an investment must be purchased with the expectation that it will be held to maturity. Council policy limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily. Council policy limits the investment of interim and inactive monies to certificates of deposit with a term of no more than five years and the expiration of the depository agreement, respectively.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012**

NOTE 2 - CASH AND INVESTMENTS, Continued

Credit Risk - STAR Plus and the investment in the money market fund carry a rating of AAAm by Standard and Poor's. The Council's investments in the federal agency securities were rated AA+ by Standard and Poor's. Council policy requires that money market funds have the highest credit rating issued by at least one national rating service.

Custodial Credit Risk - Council policy requires that depositories must collateralize deposits and that securities underlying term repurchase agreements must be delivered to the Council or its designee. The Council has no other policies that address custodial credit risk.

Concentration of Credit Risk - Council places no limit on the amount it may invest in any one issuer.

NOTE 3 - CAPITAL ASSETS

A summary of the capital assets activity for the year ended December 31, 2012 is as follows:

	<u>Balance</u> <u>December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2012</u>
Computers/ Equipment	\$51,941	\$10,877	(\$2,886)	\$59,932
Less Accumulated Depreciation	(<u>31,241</u>)	(<u>8,774</u>)	<u>2,343</u>	(<u>37,672</u>)
Governmental Activities Capital Assets - Net	<u>\$20,700</u>	<u>\$ 2,103</u>	<u>(\$ 543)</u>	<u>\$22,260</u>

NOTE 4 - RETIREMENT 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 is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 4 - RETIREMENT PLANS, Continued

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <http://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of qualifying gross wages for all employees for year ending December 31, 2012. The 2012 employer contribution rate for local government employers was 14% 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 2012, 2011 and 2010 were \$91,285, \$73,331 and \$83,778, respectively. All required contributions were made prior to the end of each respective year.

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.

NOTE 5 - POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan. The combined plan is a cost sharing, multiple-employer defined benefit pension plan that has the elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 5 - POST-EMPLOYMENT BENEFITS, Continued

In order to qualify for post-employment health care coverage, age-and-service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, local government employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4% for 2012. The portion of employer contributions allocated to health care for members in the combined plan was 6.05% for 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Council's contributions for health care to OPERS for the years ending December 31, 2012, 2011, and 2010 were \$26,080, \$20,951 and \$30,237, respectively, which were equal to the required contributions for each year.

The changes to the Health Care Plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 6 - LEASE COMMITMENTS

The Council rents office space on a year-to-year basis from the Ottawa County Board of Developmental Disabilities. The rent amount of \$11,592 for 2011 and 2012 was paid in 2012 for total rent expense of \$23,184.

The Council leases equipment under a noncancelable lease. The Council disbursed \$8,238 to pay lease costs for the year ended December 31, 2012. Future lease payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2013	\$8,500
2014	1,400
2015 and thereafter	<u>-0-</u>
Total	<u>\$9,900</u>

NOTE 7 - COMPLIANCE WITH GRANTS AND CONTRACTS

The Council serves as a pass through agency for the State of Ohio's Medicaid allocations to its providers. Providers are required to comply with the terms and conditions specified in the Medicaid provider agreements. Medicaid permits the providers one full year from the date services were provided to bill for reimbursements.

Ohio has the authority to audit the providers' compliance with such agreements 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 8 - RELATED PARTY

The Council has a relationship with a represented county for payroll services. The county processes the Council's payroll transactions and bills the Council quarterly for the service. The amount paid to the county in 2012 for payroll and payroll services was approximately \$711,300.

NOTE 9- RISK MANAGEMENT

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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2012

NOTE 10 - CONTINGENCIES

The Medicaid Administrative Claiming income is subject to retroactive adjustment which could result in increases or decreases in future revenue upon settlement. The Council is unable to determine the amount, if any, of the cost settlements for the open years of 2008, 2009, 2010, 2011 and 2012.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE

For 2012, the Council has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Council's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

CLEARWATER COUNCIL OF GOVERNMENTS
SCHEDULE OF MODIFIED CASH BASIS
GENERAL AND ADMINISTRATIVE DISBURSEMENTS
GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2012

Salaries, Wages, and Related Taxes and Benefits	\$ 46,481
Professional Services	17,063
Insurance - Liability	8,010
Travel, Seminars and Training	6,961
Office	5,903
Office Space Rent	2,318
Computer	854
Equipment	560
Dues and Subscriptions	510
Depreciation	439
Miscellaneous	<u>27</u>
TOTAL GENERAL AND ADMINISTRATIVE DISBURSEMENTS	 <u>\$ 89,126</u>



**INDEPENDENT AUDITOR'S 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**

Board of Directors
Clearwater Council of Governments
235 N. Toussaint South Road
Oak Harbor, OH 43449

We have audited, in accordance with the 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, the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clearwater Council of Governments ("Council") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

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

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, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



July 17, 2013

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Dave Yost • Auditor of State

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
OCTOBER 10, 2013**