

CLEARWATER COUNCIL OF GOVERNMENTS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the Clearwater Council of Governments, Ottawa County, prepared by Weber O'Brien, Ltd, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 25, 2006

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CLEARWATER COUNCIL OF GOVERNMENTS

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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, each major fund and the aggregate remaining fund information of the Clearwater Council of Governments ("Council") as of and for the years ended December 31, 2005 and 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 an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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, each major fund, and the aggregate remaining fund information of Clearwater Council of Governments as of December 31, 2005 and 2004, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2006, 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 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clearwater Council of Governments basic financial statements. The schedules of general and administrative expenses are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, which is the responsibility of management, has been subjected to the auditing procedures applied in the audits 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.

Walter O'Brien Ltd.

May 17, 2006

**Clearwater Council of Governments
Management's Discussion and Analysis
For Years Ended December 31, 2005 and 2004
Unaudited**

The following discussion and analysis provides a summary overview of the financial activities of Clearwater Council of Governments (Council) for the years ended December 31, 2005 and 2004. This information should be read in conjunction with the basic financial statements included in this report.

Financial Highlights

The key financial highlights for 2005 are as follows:

- Assets exceed liabilities by \$3,302,746 as of December 31, 2005
- Net Assets Increased by \$162,910 as of December 31, 2005

The key financial highlights for 2004 are as follows:

- Assets exceed liabilities by \$3,139,836 as of December 31, 2004
- Net Assets Increased by \$208,119 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.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2005 and 2004
Unaudited**

The reconciliations on pages 12 and 14 explain the difference between the two basis 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. The tables below provide a summary of the Council's financial position and operations for the years ended December 31, 2005 and 2004, 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
	2005	2004		
<u>Assets</u>				
Cash	\$ 76,751	\$ 39,016	\$ 37,735	97%
Contract Receivable	90,632	28,423	62,209	219%
Investments	3,680,919	3,444,171	236,748	7%
Depreciable Capital Assets, Net of Accumulated Depreciation	10,852	5,379	5,473	102%
Total Assets	3,859,154	3,516,989	342,165	10%
<u>Liabilities</u>				
Accounts Payable	306,382	162,924	143,458	88%
Deferred Revenue	231,027	197,338	33,689	17%
Other Liabilities	18,999	16,891	2,108	12%
Total Liabilities	556,408	377,153	179,255	48%
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	10,852	5,379	5,473	102%
Unrestricted/Undesignated	3,291,894	3,134,457	157,437	5%
Total Net Assets	\$3,302,746	\$3,139,836	\$162,910	5%

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2005 and 2004
Unaudited**

Discussion on Significant Changes in the Statement of Net Assets – Government-Wide from the previous page:

During 2005, net assets increased by \$162,910. The majority of the increase was due to the following reasons:

- The 97% increase in cash is due to cash flow timing.
- The 219% increase in contract receivables is due to the receivables not being paid as timely by funding sources in 2005 compared to 2004.
- The 102% increase in capital assets is due to 2005 capital asset additions.
- The 88% increase in accounts payable is due mostly to the timing of payroll payments as well as a payable at the end of 2005 for 2004-2005 leave days.
- The 17% increase in deferred revenue is due to the Clearwater COG changing the contract period for a couple of services.

During 2004, net assets increased by \$208,119. The majority of the increase was due to the following reasons:

- 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.
- 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 2005 and 2004.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2005 and 2004
Unaudited**

Condensed Statement of Activities – Government-Wide:

	December 31		Dollar Change	Percent Change
	2005	2004		
Revenues				
Waiver Revenue	\$ 875,297	\$ 877,529	\$(2,232)	(0%)
Administrative Fees	7,700	7,800	(100)	1%
Medicaid	249,517	176,586	72,931	41%
Supported Living	360,552	218,253	142,299	65%
Interest Income	108,443	44,707	63,736	143%
Other Revenue	<u>167,834</u>	<u>76,336</u>	<u>91,498</u>	<u>120%</u>
Total Revenue	1,769,343	1,401,211	368,132	26%
Expenditures				
Program	1,208,439	775,882	432,557	56%
Administrative	<u>397,994</u>	<u>417,210</u>	<u>(19,216)</u>	<u>(5%)</u>
Total Expenditures	<u>1,606,433</u>	<u>1,193,092</u>	<u>413,341</u>	<u>35%</u>
Change in Net Assets	\$ 162,910	\$ 208,119	\$(45,209)	(22%)

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

For year ended December 31, 2005:

- The 41% increase in Medicaid Revenue is due mostly to the receipt of a cost settlement in 2005.
- The 65% increase in Supported Living Revenue is due to increased funding received from the counties for supported living services.
- The 143% increase in Interest Income is due to increased interest rates in 2005 as compared to 2004.
- The 120% increase to Other Revenue is due to two services being offered all year in 2005 compared to part of the year in 2004.
- The 56% increase in Program Expenses is due mostly to Clearwater COG paying more state match on behalf of the counties in 2005. Along with, the counties paying providers for repairs and delicensing facilities.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Years Ended December 31, 2005 and 2004
Unaudited**

For year ended December 31, 2004:

- 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 304% increase in Supported Living Revenue is due to increased funding received from a county for supportive living services.
- The 29% 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.

General Fund

General fund net assets increased by \$66,305 in 2005 compared to \$208,233 in 2004. The difference is primarily due to program expenses in 2005 increasing at a faster rate than program revenues.

Capital Assets

At December 31, 2005 and 2004, the Council had \$10,852 and \$5,379, respectively, (net of accumulated depreciation) invested in capital assets for governmental activities.

Economic Factors

It should be noted that future revenues 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 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
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 76,751	\$ 39,016
Contracts Receivable	90,632	28,423
Investments	3,680,919	3,444,171
Depreciable Capital Assets, Net of Accumulated		
Depreciation	10,852	5,379
TOTAL ASSETS	3,859,154	3,516,989
 LIABILITIES		
Accounts Payable	306,382	162,924
Deferred Revenue	231,027	197,338
Other Liabilities	18,999	16,891
TOTAL LIABILITES	556,408	377,153
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	10,852	5,379
Unrestricted	3,291,894	3,134,457
TOTAL NET ASSETS	\$ 3,302,746	\$ 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, 2005

	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
GOVERNMENTAL ACTIVITIES			
Community Support	\$ 1,208,439	\$ 1,653,200	\$ 444,761
General and Administrative	<u>397,994</u>	<u>7,700</u>	<u>(390,294)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,606,433</u>	<u>\$ 1,660,900</u>	54,467

General Revenues	
Interest	<u>108,443</u>
Total General Revenues	<u>108,443</u>

Change in Net Assets	162,910
Net Assets Beginning of Year	<u>3,139,836</u>
Net Assets End of Year	<u>\$ 3,302,746</u>

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

	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
GOVERNMENTAL ACTIVITIES			
Community Support	775,882	1,348,704	572,822
General and Administrative	<u>417,210</u>	<u>7,800</u>	<u>(409,410)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,193,092</u>	<u>\$ 1,356,504</u>	163,412

General Revenues	
Interest	<u>44,707</u>
Total General Revenues	<u>44,707</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>

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**CLEARWATER COUNCIL OF GOVERNMENTS
BALANCE SHEETS - GOVERNMENTAL FUNDS
December 31, 2005 and 2004**

	General Fund	General Fund
	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 76,751	\$ 39,016
Contracts Receivable	90,632	28,423
Investments	<u>3,680,919</u>	<u>3,444,171</u>
TOTAL ASSETS	<u><u>\$ 3,848,302</u></u>	<u><u>\$ 3,511,610</u></u>
 LIABILITIES		
Accounts Payable	\$ 306,382	\$ 162,924
Deferred Revenue	321,659	197,338
Other Liabilities	<u>18,999</u>	<u>16,891</u>
TOTAL LIABILITIES	<u>647,040</u>	<u>377,153</u>
 FUND BALANCE		
Unreserved	<u>3,201,262</u>	<u>3,134,457</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,848,302</u></u>	<u><u>\$ 3,511,610</u></u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATIONS OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Total Governmental Fund Balances	\$ 3,201,262	\$ 3,134,457
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Long term assets are not available to pay for current-period expenditures and are deferred in the fund	90,632	-0-
Capital Assets used in governmental activities are not resources and therefore are not reported in the fund	<u>10,852</u>	<u>5,379</u>
Net Assets of Governmental Activities	<u>\$ 3,302,746</u>	<u>\$ 3,139,836</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - GOVERNMENTAL FUNDS
 Years Ended December 31, 2005 and 2004

	General Fund <u>2005</u>	General Fund <u>2004</u>
REVENUE		
Waiver Revenue	\$ 868,285	\$ 877,529
Supported Living Revenue	360,552	218,253
Medicaid	165,897	176,586
Other Revenue	167,834	76,336
Administrative Fees	7,700	7,800
Interest Revenue	<u>108,443</u>	<u>44,707</u>
TOTAL REVENUE	1,678,711	1,401,211
 EXPENDITURES		
Program	1,208,439	775,882
Administrative	<u>403,467</u>	<u>417,096</u>
TOTAL EXPENDITURES	<u>1,611,906</u>	<u>1,192,978</u>
 NET CHANGE IN FUND BALANCE	 66,805	 208,233
 FUND BALANCE - BEGINNING OF YEAR	 <u>3,134,457</u>	 <u>2,926,224</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 3,201,262</u>	 <u>\$ 3,134,457</u>

"The Accompanying Notes are an Integral
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CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATIONS OF NET CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE CHANGE IN NET
ASSETS OF GOVERNMENTAL ACTIVITIES
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 66,805	\$ 208,233
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund	90,632	-0-
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	5,473	(114)
 Change in Net Assets of Governmental Activities	\$ 162,910	\$ 208,119

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

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENTS OF NET ASSETS - FIDUCIARY FUND
 December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments	\$ 125,672	\$ 123,641
TOTAL ASSETS	125,672	123,641
LIABILITIES		
Due to Others	125,672	123,641
TOTAL LIABILITES	125,672	123,641
TOTAL NET ASSETS	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 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.

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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fiduciary Fund Types

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 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 at year end.

The Council has also invested funds in Federal Agency Securities which are stated at fair values and in Money Market mutual funds which are valued at the amount reported by the fund.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets and Depreciation

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.

Capital Assets in excess of \$500, 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.

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:

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004**

NOTE 2 - CASH AND INVESTMENTS, Continued

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;
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 Ohio Subdivision's Fund (STAR Ohio).

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.

Deposits

As of December 31, 2005 and 2004, the carrying amount of the Council's deposits was \$76,751 and \$39,016, respectively, and the bank balance was \$81,149 and \$47,238, respectively. None of the bank balance for both years was exposed to custodial credit risk as the balances did not exceed the \$100,000 FDIC limit.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004**

NOTE 2 - CASH AND INVESTMENTS, Continued

Investments

As of December 31, 2005 and 2004 the Council had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>2005</u> Fair Value	<u>2004</u> Fair Value
Invested in STAR Ohio	N/A	\$3,109,347	\$2,886,852
Federal Agency Securities			
Federal Home Loan Bank Note	06/27/2005	-0-	15,456
Federal Home Loan Bank Bond	08/15/2006	20,462	21,250
Federal Home Loan Bank Bond	08/15/2008	20,763	21,431
Federal Home Loan Bank Bond	03/30/2009	20,979	21,775
Federal Home Loan Mortgage Corp	09/15/2007	19,816	20,217
Money market mutual funds	N/A	<u>615,224</u>	<u>580,831</u>
Total Investments		<u>\$3,806,591</u>	<u>\$3,567,812</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 one year and the expiration of the depository agreement, respectively.

Credit Risk - STAR Ohio carries a rating of AAA by Standard and Poor's. The Council's investments in the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation were rated AAA by Standard and Poor's and the investment in the money market mutual fund was rated AAAM 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. Concentration of Credit Risk - the Council places no limit on the amount it may invest in any one issuer.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004**

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A summary of the capital assets activity for the year ended December 31, 2005 and 2004 is as follows:

	Balance at			Balance at
	<u>January 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2005</u>
Computer				
Equipment	\$ 7,723	\$ 8,486	\$ 1,662	\$ 14,547
Accumulated				
Depreciation	(2,344)	(2,847)	(1,496)	(3,695)
Capital Assets -				
Net	\$ <u>5,379</u>	\$ <u>5,639</u>	\$ <u>166</u>	\$ <u>10,852</u>
	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)
Capital Assets -				
Net	\$ <u>5,493</u>	(\$ <u>114</u>)	\$ <u>-0-</u>	\$ <u>5,379</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 - 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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004

NOTE 4 - RETIREMENT PLANS, Continued

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 for years ending December 31, 2005 and 2004. The 2005 and 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, 2005, 2004, and 2003 were \$49,861, \$48,770 and \$56,760, 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 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 2005 and 2004 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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004

NOTE 5 - POST-EMPLOYMENT BENEFITS, Continued

determined basis. The most recent actuarial valuation of OPERS' OPEB liability was performed as of December 31, 2004. 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.

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 2004 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, 2005 and 2004 was 376,109 and 379,109. The contribution rates discussed above are the actuarially determined contribution requirements for OPERS. The Retirement System's net assets available for OPEB have an actuarial value of \$10.8 and \$10.5 billion as of December 31, 2005 and 2004, respectively. The actuarial accrued liability as of that date was \$29.5 and \$26.9 billion, respectively, resulting in an unfunded actuarial accrued liability of \$18.7 and 16.4 billion, respectively.

NOTE 6 - LEASE COMMITMENTS

The Council leases office space on a year-to-year basis. The total rent expense for the years ended December 31, 2005 and 2004 was approximately \$21,200 and \$34,600, respectively.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2005 and 2004

NOTE 7 - 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 8 - 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 9 - CONTINGENCIES

In the normal course of operations, the Council may be subject to claims. At December 31, 2005, 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 is unable to determine the amount, if any, of the cost settlements for the open years of 2004 and 2005.

CLEARWATER COUNCIL OF GOVERNMENTS
 SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
 Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries, Wages and Related Taxes and Benefits	\$ 241,898	\$ 302,070
Professional Services	69,745	21,506
Travel, Seminars and Training	32,950	32,156
Rent	21,159	34,646
Computer Equipment	11,146	9,266
Insurance - Liability	6,495	6,700
Office	5,941	3,957
Telephone	4,527	5,117
Depreciation	2,847	114
Dues and Subscriptions	975	815
Advertising	<u>311</u>	<u>863</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 397,994</u>	<u>\$ 417,210</u>



**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 accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clearwater Council of Governments ("Council") as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Council's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 17, 2006. 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 the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more 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 a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance

Clearwater Council of Governments
Page Two

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of and use of the Board of Trustees and management, and the Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

Webster O'Brien Ltd.

May 17, 2006



**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
OCTOBER 5, 2006**