

**CLEARWATER COUNCIL OF GOVERNMENTS**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2007**





# Mary Taylor, CPA

Auditor of State

Council Members  
Clearwater Council of Governments  
235 N. Toussaint South Road  
Oak Harbor, Ohio 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, 2007 through December 31, 2007. 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.

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Mary Taylor, CPA  
Auditor of State

November 20, 2008

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## CLEARWATER COUNCIL OF GOVERNMENTS

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## INDEPENDENT AUDITORS' REPORT

Clearwater Council of Governments  
235 N. Toussaint South Road  
Oak Harbor, OH 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 year ended December 31, 2007, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2007, and the respective changes in financial position for the year 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 October 24, 2008 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clearwater Council of Governments basic financial statements. The schedule of general and administrative expenses is 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 audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "John O'Brien CPA". The signature is written in a cursive style with a large initial "J" and "O".

October 24, 2008

**Clearwater Council of Governments  
Management's Discussion and Analysis  
For Year Ended December 31, 2007  
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, 2007. This information should be read in conjunction with the basic financial statements included in this report.

**Financial Highlights**

The key financial highlight for 2007 is that assets exceed liabilities by \$3,176,140 as of December 31, 2007.

**Overview of the Financial Statements**

This 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 the accrual basis of accounting which is similar to that 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 focuses on near term inflows and outflows of spendable resources as well as balances of spendable resources at year end.

The fiduciary statements report Agency funds that the Council holds on behalf of other parties. Fiduciary funds use the accrual basis of accounting.

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

**Clearwater Council of Governments**  
**Management's Discussion and Analysis, Continued**  
**For Year Ended December 31, 2007**  
**Unaudited**

**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 year ended December 31, 2007.

Condensed Statement of Net Assets – Government-Wide:

	<b>December 31</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2007</b>	<b>2006</b>		
<b><u>Assets</u></b>				
Cash	\$ 126,614	\$ 89,739	\$ 36,875	41%
Contract Receivable	349,776	347,761	2,015	1%
Investments	3,238,326	3,297,658	(59,332)	(2%)
Depreciable Capital Assets, Net of Accumulated Depreciation	42,318	7,943	34,375	433%
<b>Total Assets</b>	<b>3,757,034</b>	<b>3,743,101</b>	<b>13,933</b>	<b>0%</b>
<b><u>Liabilities</u></b>				
Accounts Payable	63,346	53,119	10,227	19%
Accrued Compensation	245,732	221,818	23,914	11%
Deferred Revenue	246,379	213,361	33,018	15%
Other Liabilities	25,437	25,173	264	1%
<b>Total Liabilities</b>	<b>580,894</b>	<b>513,471</b>	<b>67,423</b>	<b>13%</b>
<b><u>Net Assets</u></b>				
Invested in Capital Assets, Net of Related Debt	42,318	7,943	34,375	433%
Unrestricted/Undesignated	3,133,822	3,221,687	( 87,865)	( 3%)
<b>Total Net Assets</b>	<b>\$3,176,140</b>	<b>\$3,229,630</b>	<b>(\$ 53,490)</b>	<b>( 2%)</b>

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

During 2007, net assets decreased by \$53,490. The majority of the decrease was due to the following reasons:

**Clearwater Council of Governments  
Management's Discussion and Analysis, Continued  
For Year Ended December 31, 2007  
Unaudited**

- The 433% increase in capital assets is due to moving to a new building in 2007 and purchasing new equipment for the new building.
- The 19% increase in accounts payable is due mostly to timing and increases in service fees.
- The 11% increase in accrued compensation is due primarily to the Council hiring an additional employee in 2007.
- The 15% increase in deferred revenues is due to increased contract fees charged to participating counties as well as one county adding another service in 2007.

The following is a table that summarizes the changes in revenues and expenses for the Clearwater Council of Governments between years 2007 and 2006.

Condensed Statement of Activities – Government-Wide:

	<b>December 31</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2007</b>	<b>2006</b>		
<b><u>Revenues</u></b>				
Waiver Revenue	\$ 1,063,445	\$ 763,105	\$300,340	39%
Administrative Fees	1,161	4,365	( 3,204)	( 73%)
Medicaid	225,841	192,736	33,105	17%
Supported Living	114,704	144,481	( 29,777)	( 21%)
Interest Income	175,656	170,294	5,362	3%
Other Revenue	<u>198,767</u>	<u>157,874</u>	<u>40,893</u>	<u>26%</u>
<b>Total Revenue</b>	<b>1,779,574</b>	<b>1,432,855</b>	<b>346,719</b>	<b>24%</b>
<b><u>Expenditures</u></b>				
Program	1,353,251	1,045,650	307,601	29%
Administrative	<u>479,813</u>	<u>460,321</u>	<u>19,492</u>	<u>4%</u>
<b>Total Expenditures</b>	<b><u>1,833,064</u></b>	<b><u>1,505,971</u></b>	<b><u>327,093</u></b>	<b><u>22%</u></b>
<b>Change in Net Assets</b>	<b>(\$ 53,490)</b>	<b>(\$ 73,116)</b>	<b>\$19,626</b>	<b>27%</b>

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

For year ended December 31, 2007:

- The 39% increase in Waiver Revenue is due mostly to receiving increased waiver reconciliation revenue in 2007 compared to 2006.

**Clearwater Council of Governments  
Management's Discussion and Analysis, Continued  
For Year Ended December 31, 2007  
Unaudited**

- The 17% increase in Medicaid Revenue is due mostly to an increase in Targeted Case Management (TCM) monies. This program was initiated late in 2005, with 2006 being the first full year of activity. In 2007, the program is well established and the Council is able to better estimate and record expected revenues.
- The 21% decrease in Supported Living Revenue is due to a decrease in the number of individuals receiving Supported Living Services in 2007.
- The 26% increase in Other Revenue is due primarily to an individual in one of our counties receiving private pay services and the Council collecting the payment on behalf of the county.
- The 29% increase to Program Expenses is due mostly to one county having the Council pay the waiver match on their behalf using reconciliation money given to the Council previously by the State of Ohio on behalf of that county.
- The 4% increase in Administrative Expenses is due to increased travel costs for employees, and the addition of the behavior support service.

**General Fund**

General fund net assets decreased by \$257,906 in 2007. The difference is primarily due to capital asset additions in 2007 and an increase in target case management revenue not being collected within the first 60 days after the year-end, resulting in a deferral of these revenues.

**Capital Assets**

At December 31, 2007, the Council had \$42,318, (net of accumulated depreciation) invested in capital assets for governmental activities. During 2007, the Council purchased \$43,358 of capital assets.

**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, 235 N. Toussaint South Road, Oak Harbor, OH 43449, or by telephone at (419) 898-8264.

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**STATEMENT OF NET ASSETS**  
**December 31, 2007**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 126,614
Contracts Receivable	349,776
Investments	3,238,326
Depreciable Capital Assets, Net of Accumulated Depreciation	42,318
<b>TOTAL ASSETS</b>	<b>3,757,034</b>
 <b>LIABILITIES</b>	
Accounts Payable	63,346
Accrued Compensation	245,732
Deferred Revenue	246,379
Other Liabilities	25,437
<b>TOTAL LIABILITES</b>	<b>580,894</b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	42,318
Unrestricted	3,133,822
<b>TOTAL NET ASSETS</b>	<b>\$ 3,176,140</b>

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

CLEARWATER COUNCIL OF GOVERNMENTS  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2007

	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
Community Support	\$ 1,353,251	\$ 1,602,757	\$ 249,506
General and Administrative	<u>479,813</u>	<u>1,161</u>	( <u>478,652</u> )
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 1,833,064</u>	<u>\$ 1,603,918</u>	( 229,146 )

General Revenues	
Interest	<u>175,656</u>
Total General Revenues	<u>175,656</u>

Change in Net Assets	( 53,490 )
Net Assets Beginning of Year	<u>3,229,630</u>
Net Assets End of Year	<u>\$ 3,176,140</u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2007**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 126,614
Contracts Receivable	349,776
Investments	<u>3,238,326</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,714,716</u></u>
 <b>LIABILITIES</b>	
Accounts Payable	\$ 63,346
Accrued Compensation	245,732
Deferred Revenue	507,612
Other Liabilities	<u>25,437</u>
<b>TOTAL LIABILITIES</b>	<u>842,127</u>
 <b>FUND BALANCE</b>	
Unreserved	<u>2,872,589</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u><u>\$ 3,714,716</u></u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**December 31, 2007**

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**Total Governmental Fund Balances** \$ 2,872,589

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Long term assets are not available to pay for current-period  
expenditures and are deferred in the fund. 261,233

Capital Assets used in governmental activities are not  
financial resources and therefore are not reported in the fund. 42,318

**Net Assets of Governmental Activities** \$ 3,176,140

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

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2007**

	<u>General Fund</u>
<b>REVENUE</b>	
Waiver Revenue	\$ 993,810
Other Revenue	184,191
Supported Living Revenue	114,704
Medicaid	140,011
Administrative Fees	1,161
Interest Revenue	<u>175,656</u>
<b>TOTAL REVENUE</b>	<b>1,609,533</b>
 <b>EXPENDITURES</b>	
Program	1,353,251
Adminstrative	<u>514,188</u>
<b>TOTAL EXPENDITURES</b>	<b><u>1,867,439</u></b>
 <b>NET CHANGE IN FUND BALANCE</b>	 ( 257,906)
 <b>FUND BALANCE - BEGINNING OF YEAR</b>	 <u>3,130,495</u>
 <b>FUND BALANCE - END OF YEAR</b>	 <u>\$ 2,872,589</u>

**"The Accompanying Notes are an Integral  
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**CLEARWATER COUNCIL OF GOVERNMENTS  
RECONCILIATION OF NET CHANGE IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE CHANGE IN NET  
ASSETS OF GOVERNMENTAL ACTIVITIES  
Year Ended December 31, 2007**

**Net Change in Fund Balances - Total Governmental Funds** (\$ 257,906)

*Amounts reported for governmental activities in the statement  
of activities are different because:*

Revenues in the Statement of Activities that do not provide current  
financial resources are not reported as revenues in the fund. 170,041

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. 34,375

**Change in Net Assets of Governmental Activities** (\$ 53,490)

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

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**STATEMENT OF NET ASSETS - FIDUCIARY FUND**  
**December 31, 2007**

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Investments	\$ 117,281
<b>TOTAL ASSETS</b>	<u>117,281</u>
<b>LIABILITIES</b>	
Due to Others	<u>117,281</u>
<b>TOTAL LIABILITES</b>	<u>117,281</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ -0-</u></u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2007**

**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**  
**Year Ended December 31, 2007**

**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**  
**Year Ended December 31, 2007**

**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. Fiduciary funds also use the accrual basis of accounting.

**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  
Year Ended December 31, 2007**

**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  
Year Ended December 31, 2007**

**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, 2007, the carrying amount of the Council's deposits was \$126,614, and the bank balance was \$130,989. Of the bank balance, \$100,000 is insured by the Federal Deposit Insurance Corporation and \$30,989 was uninsured. The uninsured balance is exposed to custodial credit risk as it is collateralized by pooled securities held by the pledging institution's agent not in the Council's name.

**CLEARWATER COUNCIL OF GOVERNMENTS  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 Year Ended December 31, 2007**

**NOTE 2 - CASH AND INVESTMENTS, Continued**

**Investments**

As of December 31, 2007 the Council had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Reported Amount/ Fair Value</u>
Invested in STAR Ohio	N/A	\$2,588,028
Federal Agency Securities		
U.S. Treasury Note	12/15/2008	100,125
Federal Home Loan Bank Bond	08/15/2008	20,138
Federal Home Loan Bank Bond	03/30/2009	20,481
Federal Home Loan Bank Bond	09/11/2009	102,500
Federal Home Loan Bank Bond	02/18/2011	102,875
Money market mutual funds	N/A	<u>421,460</u>
Total Investments		<u>\$3,355,607</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 AAAM by Standard and Poor's. The Council's investments in the U.S Treasury note and the Federal Home Loan Bank 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 or its designee. The Council has no other policies that address custodial credit risk.

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  
 Year Ended December 31, 2007**

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION**

A summary of the capital assets activity for the year ended December 31, 2007 is as follows:

	Balance at			Balance at
	<u>January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2007</u>
Computer				
Equipment	\$ 14,547	\$ 43,358	(\$ 3,047)	\$ 54,858
Accumulated				
Depreciation	( 6,604)	( 8,003)	2,067	( 12,540)
Capital Assets -				
Net	\$ <u>7,943</u>	\$ <u>35,355</u>	(\$ <u>980</u> )	\$ <u>42,318</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 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. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 9.5% of qualifying gross wages for all employees for years ending December 31, 2007. The 2007 employer contribution rate for Local Government employers was 13.85% 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 2007, 2006 and 2005 were \$56,063, \$52,461 and \$49,861, respectively. All required contributions were made prior to the end of each respective year.

**CLEARWATER COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Year Ended December 31, 2007**

**NOTE 4 - RETIREMENT PLANS, Continued**

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

**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. Health care coverage for disability recipients and qualified survivor benefit 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 2007 employer contribution rate was 13.85% of covered payroll and 5% from January 1 through June 30 and 6% from July 1 through December 31 was the portion that was used to fund health care.

OPEB is financed through employer contributions and investment earnings thereon. OPERS has elected advance funding of its OPEB's on an actuarially determined basis. The most recent actuarial valuation of OPERS' OPEB liability was performed as of December 31, 2006. The following significant actuarial assumptions were used in this valuation:

Funding Method The individual entry age 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 to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

**CLEARWATER COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
Year Ended December 31, 2007**

**NOTE 5 - POST-EMPLOYMENT BENEFITS, Continued**

Investment Return The investment assumption rate for 2006 was 6.50%.

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 .50%-5% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

The number of active contributing participants of the traditional pension and combined plans as of December 31, 2007 was 374,979. The contribution rates discussed above are the actuarially determined contribution requirements for OPERS. The Council's contributions to fund post-employment benefits for the year end December 2007 were \$22,321. The Retirement System's net assets available for OPEB have an actuarial value of \$12.0 billion as of December 31, 2006. The actuarial accrued liability as of that date was \$30.7 billion, resulting in an unfunded actuarial accrued liability of \$18.7 billion.

**NOTE 6 - LEASE COMMITMENTS**

The Council leases office space on a year-to-year basis. The total rent expense for the year ended December 31, 2007 was approximately \$16,150.

**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.

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**Year Ended December 31, 2007**

**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 of compensation payable to the county at December 31, 2007 represents two quarters and totals approximately \$245,700. Compensation expense was approximately \$481,600 for the year ended December 31, 2007.

**NOTE 9 - 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.

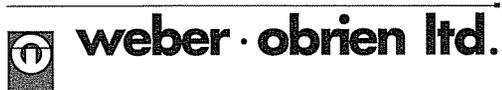
**NOTE 10 - CONTINGENCIES**

In the normal course of operations, the Council may be subject to claims. At December 31, 2007, 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 2006 and 2007.

**CLEARWATER COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**Year Ended December 31, 2007**

Salaries, Wages, and Related Taxes and Benefits	\$ 295,836
Professional Services	62,098
Travel, Seminars and Training	50,789
Rent	16,145
Office	12,572
Computer Equipment	12,503
Insurance - Liability	11,242
Depreciation	8,003
Telephone	7,110
Dues and Subscriptions	1,170
Advertising	1,148
Loss on Disposal	979
Equipment	<u>218</u>
 <b>TOTAL GENERAL AND</b>	
<b>ADMINISTRATIVE EXPENSES</b>	 <u><u>\$ 479,813</u></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  
235 N. Toussaint South Road  
Oak Harbor, OH 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 year ended December 31, 2007, which collectively comprise the Council's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 24, 2008. 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material

To the Board of Trustees  
Clearwater Council of Governments

misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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*.

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

  
October 24, 2008



**Mary Taylor, CPA**  
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  
DECEMBER 9, 2008**