

CLEARWATER COUNCIL OF GOVERNMENTS

OTTAWA COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2015





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Clearwater Council of Governments, Ottawa County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Clearwater Council of Governments is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

July 19, 2016

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CLEARWATER COUNCIL OF GOVERNMENTS
OTTAWA COUNTY, OHIO
Audit Report
For the Year Ended December 31, 2015

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Charles E. Harris & Associates, Inc.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Clearwater Council of Governments
Ottawa County
235 North Toussaint South Road
Oak Harbor, Ohio 43449

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the remaining fund information of the Clearwater Council of Governments, Ottawa County, Ohio (the Council) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 1 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the remaining fund information of the Clearwater Council of Governments, Ottawa County, Ohio, as of December 31, 2015, and the changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 1.

Accounting Basis

We draw attention to Note 1 of the financial statements, which describes the accounting basis. The financial statements are prepared on the modified cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 10 to the financial statements, during 2015, the Council adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis, as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2016, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
May 4, 2016

**Clearwater Council of Governments
Management's Discussion and Analysis
For Year Ended December 31, 2015
Unaudited**

The following discussion and analysis provides a summary overview of the financial activities of the Clearwater Council of Governments ("Council") for the year ended December 31, 2015, within the limitations of the Council's modified cash basis of accounting. This information should be read in conjunction with the basic financial statements and notes included in this report.

Financial Highlights

- Net position of governmental activities decreased \$305,830 or 6%.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2015
Unaudited

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

Reporting the Council as a Whole

The statement of net position and the statement of activities reflect how the Council did financially during 2015, within the limitations of the modified cash basis accounting. The statement of net position presents the cash balance and investments of the governmental activities of the Council at year end. The statement of activities compares cash disbursements and program receipts for each program or function of the Council's governmental activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self financing on a modified cash basis or draws from the general receipts of the Council.

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

Reporting the Council's Most Significant Funds

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

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

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2015
Unaudited**

Council's only governmental fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fiduciary Funds - The Council has one fiduciary fund that is used as a payee account for individuals with disabilities. Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Council has an agency fund. Agency funds are purely custodial in nature and are used to account for assets held by the Council for individuals.

The Council as a Whole

Table 1 provides a summary of the Council's net position for 2015 compared to 2014 on the modified cash basis:

(Table 1)
Net Position

	<u>Governmental Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets				
Cash	\$2,643,694	\$ 2,958,856	(\$315,162)	(11%)
Investments	<u>2,236,402</u>	<u>2,232,149</u>	<u>4,253</u>	0%
Total Assets	<u>\$4,880,096</u>	<u>\$5,191,005</u>	<u>(\$310,909)</u>	(6%)
Net Position				
Unrestricted	<u>\$4,880,096</u>	<u>\$5,191,005</u>	<u>(\$310,909)</u>	(6%)
Total Net Position	<u>\$4,880,096</u>	<u>\$5,191,005</u>	<u>(\$310,909)</u>	(6%)

As mentioned previously, net position of governmental activities decreased \$305,830, or 6% during 2015.

- The 11% decrease in cash is due to cash flow timing of receipts and disbursements.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2015
Unaudited**

Table 2 reflects the changes in net assets on the modified cash basis in 2015 and 2014 for governmental activities.

(Table 2)
Changes in Net Position

	<u>Governmental Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Receipts				
Program Receipts:				
Waiver Revenue	\$ 608,637	\$ 515,323	\$ 93,314	18%
Other Revenue	1,718,903	1,902,523	(183,620)	10%
Medicaid Revenue	495,668	480,692	14,976	3%
Supported Living Revenue	<u>298,639</u>	<u>198,414</u>	<u>100,225</u>	51%
Total Program Receipts	3,121,847	3,096,952	34,582	1%
General Receipts:				
Interest Revenue	<u>38,780</u>	<u>30,203</u>	<u>8,577</u>	28%
Total Receipts	3,160,627	3,127,155	33,472	1%
Disbursements:				
Program	3,285,519	3,413,556	(128,037)	(4%)
Administrative	<u>180,938</u>	<u>144,236</u>	<u>36,702</u>	25%
Total Disbursements	<u>3,466,457</u>	<u>3,557,792</u>	<u>(91,335)</u>	(3%)
Change in Net Position	<u>(\$305,830)</u>	<u>(\$430,637)</u>	<u>\$124,807</u>	29%

For the year ended December 31, 2015:

- The 18% increase in Waiver Revenue is due mostly to the county boards enrolling more waiver individuals and receiving reimbursement from a county board for the costs of an individual in a developmental center.
- The 10% decrease in Other Revenue is primarily due to a county board paying about \$82,000 for match payments in 2014 and nothing in 2015 along with receiving about \$90,000 in reimbursement for the Bridges program in 2014 compared to about \$26,000 in 2015.
- The 51% increase in Supported Living Revenue is due mostly to the Council receiving payments from one county to cover the costs of almost two years of service in 2015 compared to half a year of service in 2014.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2015
Unaudited**

- The 28% increase in Interest Revenue is due primarily to an increase in interest rates.
- The 25% increase in the Administrative Expense is due primarily to paying five quarters of payroll in 2015 compared to four quarters in 2014 due to the timing of payments.

General Fund

General fund balance decreased \$305,830 in 2015. This decrease is due primarily to the same reasons for the decrease in net position, as previously discussed.

Economic Factors

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

Contacting the Council's Financial Management

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2015

	Governmental Activities
ASSETS	
Cash	\$ 2,643,694
Investments	<u>2,236,402</u>
TOTAL ASSETS	<u>\$ 4,880,096</u>
NET POSITION	
Unrestricted	<u>\$ 4,880,096</u>
TOTAL NET POSITION	<u>\$ 4,880,096</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 Year Ended December 31, 2015

	<u>Cash</u> <u>Disbursements</u>	<u>Program</u> <u>Cash Receipts</u> <u>Charges for Services</u>	<u>Net (Disbursements)</u> <u>Receipts and Changes</u> <u>in Net Position</u>
GOVERNMENTAL ACTIVITIES			
Community Support	\$ 3,285,519	\$ 2,924,560	(\$ 360,959)
General and Administrative	<u>180,938</u>	<u>197,287</u>	<u>16,349</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 3,466,457</u>	<u>\$ 3,121,847</u>	(344,610)

General Receipts

Interest	<u>38,780</u>
Total General Receipts	<u>38,780</u>

Change in Net Position	(305,830)
Net Position Beginning of Year	<u>5,185,926</u>
Net Position End of Year	<u>\$ 4,880,096</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>
ASSETS	
Cash	\$ 2,643,694
Investments	<u>2,236,402</u>
TOTAL ASSETS	<u><u>\$ 4,880,096</u></u>
FUND BALANCE	
Unassigned	<u>\$ 4,880,096</u>
TOTAL FUND BALANCE	<u><u>\$ 4,880,096</u></u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2015

	<u>General Fund</u>
RECEIPTS	
Waiver Revenue	\$ 608,637
Other Revenue	1,718,903
Medicaid	495,668
Supported Living Revenue	298,639
Interest Revenue	38,780
TOTAL RECEIPTS	3,160,627
DISBURSEMENTS	
Program	3,285,519
Administrative	180,938
TOTAL DISBURSEMENTS	3,466,457
NET CHANGE IN FUND BALANCE	(305,830)
FUND BALANCE - BEGINNING OF YEAR	5,185,926
FUND BALANCE - END OF YEAR	\$ 4,880,096

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUND
Year Ended December 31, 2015

	<u>Agency</u>
ASSETS	
Equity in Pooled Cash	\$ <u>90,679</u>
TOTAL ASSETS	\$ <u><u>90,679</u></u>
NET POSITION	
Held on Behalf of representative payee individuals	\$ <u>90,679</u>
TOTAL NET POSITION	\$ <u><u>90,679</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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Basis of Presentation

The financial statements of the Council are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from generally accepted accounting principles (GAAP) in the United States. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent applicable to the modified cash basis of accounting. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

Government-Wide Financial Statements

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

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

Government-Wide Financial Statements, Continued

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

Fiduciary Funds

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting

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

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

Budgetary Process

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

Cash and Investments

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

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

During 2015, the Council invested in certificates of deposit, federal agency securities, money market funds and STAR Ohio. Certificates of deposit and federal agency securities are valued at cost. The Council's money market fund investments are recorded at the amount reported by PNC at December 31, 2015. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015.

Interest receipts credited to the General Fund during 2015 were \$38,780.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Accumulated Leave

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

Employer Contributions to Cost-Sharing Pension Plans

The Council recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 3 and 4, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

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

Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Council has no restricted components of net position.

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Balances

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

Nonspendable - Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally by creditors, grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed - Committed fund balance consists of amounts that can be used only for specific purposes imposed by formal action of the Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specific use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed funds balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

The Council applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

NOTE 2 - CASH AND INVESTMENTS

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

Monies held by the Council are classified into three categories.

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

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

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

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

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

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015**

NOTE 2 - CASH AND INVESTMENTS, Continued

3. Interim deposits in eligible institutions. Such deposits are to be awarded to the depository offering to pay the highest permissible rate of interest. The treasurer or the board is to determine the periods for which such deposits are to be made;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 1. and 2. above and repurchase agreements secured by such obligations; and
6. The State Treasurer's investment pool (STAR Ohio).

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

Depository Credit Risk

As of December 31, 2015, the carrying amount of the Council's deposits was \$3,147,751 and the bank balance was \$3,156,261. Of the bank balance, \$3,156,261 is insured by the Federal Deposit Insurance Corporation.

Depository Custodial Risk

The Council has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible security pledged to and deposited either with the Council or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015**

NOTE 2 - CASH AND INVESTMENTS, Continued

Investments

As of December 31, 2015, the Council had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Carrying Value</u>
Federal Agency Securities:		
Federal Home Loan Bank Bond	09/21/2016	\$ 150,000
Federal National Mortgage Association Bond	11/07/2017	170,000
Federal National Mortgage Association Bond	04/30/2018	200,000
Negotiable Certificate of Deposit	04/29/2016	160,000
Negotiable Certificate of Deposit	05/19/2016	150,000
Negotiable Certificate of Deposit	04/17/2017	160,000
Negotiable Certificate of Deposit	05/01/2017	150,000
Negotiable Certificate of Deposit	11/06/2017	150,000
Negotiable Certificate of Deposit	05/14/2018	90,000
Negotiable Certificate of Deposit	05/14/2018	100,000
Negotiable Certificate of Deposit	10/22/2018	160,000
Negotiable Certificate of Deposit	10/22/2018	160,000
Money Market Fund	N/A	<u>23,024</u>
Total Investments		<u>\$1,823,024</u>

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

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

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

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

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015**

NOTE 3 - PENSIONS

The employees of the Council participate in the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members may elect the member-directed plan and the combined plan, substantially all members are in the OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional plans. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <http://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343:

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015**

NOTE 3 - PENSIONS, Continued

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Council's contributions to OPERS for the year ended December 2015 was \$130,362. All required contributions were made prior to the end of each the year.

NOTE 4 - POST-EMPLOYMENT BENEFITS

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 4 - POST-EMPLOYMENT BENEFITS, Continued

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the traditional pension and combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, local government employers contributed at a rate of 14.00% of earable salary. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of earnable salary for local government employers. Active members do not make contributions to the OPEB plan.

OPER maintains three health care trusts. The two cost-sharing, multiple-employer trust, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional pension and Combined plans. The third trust is a Voluntary Employee's Benefit Association (VERA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the traditional plan was 2% for 2015. The portion of employer contributions allocated to health care for members in the combined plan was 2% for 2015. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plans for 2015 was 4.5%.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 4 - POST-EMPLOYMENT BENEFITS, Continued

The Council's contributions for health care to OPERS for the year ending December 31, 2015 was \$18,616, which was equal to the required contributions for the year. The contributions in 2014 and 2013 were \$16,883 and 7,642, respectively.

NOTE 5 - LEASE COMMITMENTS

The Council rents office space on a year-to-year basis from the Ottawa County Board of Developmental Disabilities. The rent expense for 2015 was \$11,592.

The Council leases equipment under a noncancelable lease. The Council disbursed \$7,167 to pay lease costs for the year ended December 31, 2015. Future lease payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2016	\$ 7,167
2017	7,167
2018	7,167
2019	<u>597</u>
Total	<u>\$22,098</u>

NOTE 6 - COMPLIANCE WITH GRANTS AND CONTRACTS

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

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

NOTE 7 - RELATED PARTY

The Council has a relationship with a represented county for payroll services. The county processes the Council's payroll transactions and bills the Council quarterly for the service. The amount paid to the county in 2015 for payroll and payroll services was approximately \$1,277,600.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

NOTE 8- RISK MANAGEMENT

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

NOTE 9 - CONTINGENCIES

The Medicaid Administrative Claiming income is subject to retroactive adjustment which could result in increases or decreases in future revenue upon settlement. The Council is unable to determine the amount, if any, of the cost settlements for the open years of 2011, 2012, 2013, 2014 and 2015.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2015, the Council has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 did not affect the Council's beginning net position.

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Charles E. Harris & Associates, Inc.

Certified Public Accountants

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

Clearwater Council of Governments
Ottawa County
235 North Toussaint South Road
Oak Harbor, Ohio 43449

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the remaining fund information of the Clearwater Council of Governments, Ottawa County, (the Council) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated May 4, 2016, wherein we noted the Council uses a special purpose framework other than generally accepted accounting principles. We noted the Council adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
May 4, 2016



Dave Yost • Auditor of State

CLEARWATER COUNCIL OF GOVERNMENTS

OTTAWA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 2, 2016**