

CLEARWATER COUNCIL OF GOVERNMENTS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Clearwater Council of Governments, Ottawa County, prepared by Weber O'Brien Ltd., for the audit period January 1, 2003 to December 31, 2003. 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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BETTY MONTGOMERY
Auditor of State

November 2, 2004

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CLEARWATER COUNCIL OF GOVERNMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Clearwater Council of Governments ("Council") as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Clearwater Council of Governments as of December 31, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated May 13, 2004 on our consideration of the Council's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The information in the schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Clearwater Council of Governments. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to be "W. S. G. B. M.", written in a cursive style.

May 13, 2004

CLEARWATER COUNCIL OF GOVERNMENTS
 COMBINED BALANCE SHEETS - ALL FUND TYPES AND ACCOUNT GROUPS
 December 31, 2003 and 2002

ASSETS

	2003		
	Governmental Fund Types	Account Groups	Total (Memorandum Only)
		General Fixed	
	General Fund	Assets	
ASSETS			
Cash	\$ 19,071	\$ -0-	\$ 19,071
Contracts Receivable	67,467	-0-	67,467
Investments	3,283,804	-0-	3,283,804
General Fixed Assets	-0-	7,723	7,723
TOTAL ASSETS	\$ 3,370,342	\$ 7,723	\$ 3,378,065

LIABILITIES AND FUND BALANCES

	2003		
	Governmental Fund Types	Account Groups	Total (Memorandum Only)
		General Fixed	
	General Fund	Assets	
LIABILITIES			
Accounts Payable	\$ 169,268	\$ -0-	\$ 169,268
Deferred Revenue	254,443	-0-	254,443
Accrued Vacation	20,407	-0-	20,407
TOTAL LIABILITIES	444,118	-0-	\$ 444,118
FUND BALANCES			
Undesignated	2,926,224	-0-	2,926,224
Investment in General Fixed Assets	-0-	7,723	7,723
TOTAL FUND BALANCES	2,926,224	7,723	2,933,947
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,370,342	\$ 7,723	\$ 3,378,065

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

2002		
<u>Governmental Fund Types</u>	<u>Account Groups</u>	
<u>General Fund</u>	<u>General Fixed Assets</u>	Total (Memorandum Only)
\$ 497,660	\$ -0-	\$ 497,660
111,258	-0-	111,258
2,288,386	-0-	2,288,386
<u>-0-</u>	<u>13,129</u>	<u>13,129</u>
<u>\$ 2,897,304</u>	<u>\$ 13,129</u>	<u>\$ 2,910,433</u>

2002		
<u>Governmental Fund Types</u>	<u>Account Groups</u>	
<u>General Fund</u>	<u>General Fixed Assets</u>	Total (Memorandum Only)
\$ 129,247	\$ -0-	\$ 129,247
171,870	-0-	171,870
<u>15,073</u>	<u>-0-</u>	<u>15,073</u>
316,190	-0-	316,190
2,581,114	-0-	2,581,114
<u>-0-</u>	<u>13,129</u>	<u>13,129</u>
<u>2,581,114</u>	<u>13,129</u>	<u>2,594,243</u>
<u>\$ 2,897,304</u>	<u>\$ 13,129</u>	<u>\$ 2,910,433</u>

CLEARWATER COUNCIL OF GOVERNMENTS
COMBINED STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
Years Ended December 31, 2003 and 2002

	General Fund	
	<u>2003</u>	<u>2002</u>
REVENUE		
Residential Facility Waiver Revenue	\$ 623,855	\$ 714,647
Administrative Fees	302,118	256,207
Individual Options Reconciliation	203,617	196,693
Medicaid	176,915	133,754
Other Income	87,566	42,678
Supported Living Income	53,980	21,996
Cost Settlement	42,116	207,526
Interest Income	37,015	41,292
Dues and Reimbursed Expenses	<u>3,332</u>	<u>24,363</u>
Total Revenue	<u>1,530,514</u>	<u>1,639,156</u>
EXPENDITURES		
Program Expenses	595,902	353,293
Administrative Expenses	<u>589,502</u>	<u>456,703</u>
Total Expenditures	<u>1,185,404</u>	<u>809,996</u>
EXCESS OF REVENUE OVER EXPENDITURES	345,110	829,160
Fund Balance - Beginning of Year	<u>2,581,114</u>	<u>1,751,954</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,926,224</u></u>	<u><u>\$ 2,581,114</u></u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2003 and 2002**

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

Basis of Presentation

The accounts of the Council are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures, as appropriate. The various funds and account groups are summarized by type in the general purpose financial statements.

The Council uses the following fund types and account groups:

Governmental Fund Types

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

Account Groups

General Fixed Assets: This account group is used to present the general fixed assets of the Council utilized in its general operations. General fixed assets of the Council include furniture, fixtures and equipment.

Amounts in the "Total (Memorandum Only)" columns of the financial statements represent a summation of the combined financial statement line items of the fund types and account groups, and are presented for informational purposes only.

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

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

Basis of Accounting

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

The modified accrual basis of accounting is followed in the governmental fund types. Revenues are recognized when they become both measurable and available, while expenditures are generally recognized when the related fund liability is incurred.

Revenue Recognition

Appropriated State revenues are recognized when received since appropriations are subject to change by the funding source prior to receipt.

Deferred Waiver Revenue

Deferred waiver revenue represents contract revenue received in advance from eight counties in 2003 and 2002 to fund administrative expenses in 2004 and 2003, respectively.

Cash and Investments

The Council has invested funds in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003 and 2002, respectively.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment

Property and equipment acquired or constructed by the Council are recorded at cost and expensed at the time of purchase in the general fund and are capitalized in the general fixed asset account group. As permitted by governmental GAAP, no depreciation expense has been recorded.

NOTE 2 - CASH AND INVESTMENTS

Legal Requirements

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

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

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

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

The obligations which are eligible for investment or deposit are:

1. United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or instrumentality.
3. Interim deposits in eligible institutions.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002

NOTE 2 - CASH AND INVESTMENTS, Continued

4. Bond and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in 1. and 2. above and repurchase agreements secured by such obligations.
6. The State Treasurer's investment pool (STAR Ohio).

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

Deposits

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

Category 1: As of December 31, 2003 and 2002 the carrying amount of the Council's deposits was \$19,071 and \$497,660, respectively, and the bank balance was \$40,078 and \$498,786, respectively.

Investments

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

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002**

NOTE 2 - CASH AND INVESTMENTS, Continued

	<u>2003</u>		<u>2002</u>	
	Category of <u>Risk 3</u>	Fair <u>Value</u>	Category of <u>Risk 3</u>	Fair <u>Value</u>
Federal Agency Securities	\$195,972	\$193,280	\$181,824	\$182,670
Money Market	<u>25,788</u>	<u>25,788</u>	<u>30,231</u>	<u>30,231</u>
Total	<u>\$221,760</u>	<u>\$219,068</u>	<u>\$212,055</u>	<u>\$212,901</u>

The carrying amount and market value of the Council's investments at December 31, 2003 and 2002 were as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	Market <u>Value</u>	<u>Cost</u>	Market <u>Value</u>
Funds on Deposit with STAR Ohio	\$3,064,736	\$3,064,736	\$2,076,331	\$2,076,331
Federal Agency Securities	195,972	193,280	181,824	182,670
Money Market	<u>25,788</u>	<u>25,788</u>	<u>30,231</u>	<u>30,231</u>
Total Investments	<u>\$3,286,496</u>	<u>\$3,283,804</u>	<u>\$2,288,386</u>	<u>\$2,289,232</u>

NOTE 3 - RETIREMENT AND DEFERRED COMPENSATION PLANS

The employees of the Council are covered by the Public Employees Retirement System of Ohio (P.E.R.S), a statewide cost-sharing multiple-employer defined benefit pension plan. P.E.R.S. provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The P.E.R.S. issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The 2003 and 2002 employer contribution rate for State employers was 13.55% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Council's contributions to P.E.R.S. for the years ended December 31, 2003 and 2002 and 2001 were \$56,760, \$36,505 and \$32,232, respectively. All required contributions were made prior to each of those year ends.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002

NOTE 3 - RETIREMENT AND DEFERRED COMPENSATION PLANS,

Continued

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

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

NOTE 4 - POST-EMPLOYMENT BENEFITS

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

A portion of each employer's contribution to P.E.R.S. is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate was 13.55% of covered payroll and 5.0% was the portion that was used to fund health care.

OPEB is financed through employer contributions and investment earnings thereon. PERS has elected advance funding of its OPEB's on an actuarially determined basis. The most recent actuarial valuation of PERS' OPEB liability was performed as of December 31, 2002. The following significant actuarial assumptions were used in this valuation:

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002

NOTE 4 - POST-EMPLOYMENT BENEFITS, Continued

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

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

Investment Return The investment assumption rate for 2002 was 8.00%.

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

Health Care Costs Health care costs was assumed to increase 4.00% annually.

The number of active contributing participants of P.E.R.S. as of December 31, 2002 was 364,881. The contribution rates discussed above are the actuarially determined contribution requirements for P.E.R.S. The Retirement System's net assets available for OPEB has an actuarial value of \$10.0 billion as of December 31, 2002. The actuarial accrued liability as of that date was \$18.7 billion resulting in an unfunded actuarial accrued liability of \$8.7 billion.

NOTE 5 - VACATION POLICY

The Council has a formal vacation policy. The policy provides paid vacation for full time employees ranging from two to five weeks per year depending on length of service. A total of twelve months of service is required before eligibility for two weeks of vacation is established. Accrued vacation pay at December 31, 2003 and 2002 amounted to \$20,407 and \$15,073, respectively.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS CONTINUED
Years Ended December 31, 2003 and 2002**

NOTE 6 - COMPLIANCE WITH GRANTS AND CONTRACTS

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

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

NOTE 7 - CONTINGENCIES

In the normal course of operations, the Council may be subject to claims. At December 31, 2003, 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.

CLEARWATER COUNCIL OF GOVERNMENTS
 SCHEDULES OF RESIDENTIAL FACILITY WAIVER REVENUE BY COUNTY
 Years Ended December 31, 2003 and 2002

COUNTY	2003			2002		
	<u>Contracted Services</u>	<u>Reserve</u>	<u>Total</u>	<u>Contracted Services</u>	<u>Reserve</u>	<u>Total</u>
Crawford	\$ 52,000	\$ 68,272	\$ 120,272	\$ 47,000	\$ 49,295	\$ 96,295
Erie	31,000	15,154	46,154	76,000	65,594	141,594
Huron	38,256	79	38,335	30,000	36,531	66,531
Marion	20,021	117,953	137,974	18,000	101,909	119,909
Morrow	73,000	107,217	180,217	66,000	79,705	145,705
Ottawa	18,114	(13,869)	4,245	24,000	1,141	25,141
Sandusky	6,006	4,303	10,309	12,798	3,344	16,142
Seneca	<u>35,000</u>	<u>51,349</u>	<u>86,349</u>	<u>50,500</u>	<u>52,830</u>	<u>103,330</u>
TOTAL	<u>\$ 273,397</u>	<u>\$ 350,458</u>	<u>\$ 623,855</u>	<u>\$ 324,298</u>	<u>\$ 390,349</u>	<u>\$ 714,647</u>

CLEARWATER COUNCIL OF GOVERNMENTS
SCHEDULES OF PROGRAM EXPENSES BY COUNTY
Years Ended December 31, 2003 and 2002

COUNTY	2003			2002		
	Room and Board	Supported Living and Other Services	Total	Room and Board	Supported Living and Other Services	Total
Crawford	\$ 41,779	\$ 65,996	\$ 107,775	\$ 44,269	\$ -0-	\$ 44,269
Erie	60,577	4,696	65,273	61,062	31,292	92,354
Huron	36,695	9,795	46,490	29,744	-0-	29,744
Marion	12,834	50,312	63,146	14,266	16,252	30,518
Morrow	68,995	119,155	188,150	67,768	-0-	67,768
Ottawa	13,984	-0-	13,984	17,150	956	18,106
Sandusky	24,170	45,911	70,081	27,089	-0-	27,089
Seneca	32,626	8,377	41,003	28,236	15,209	43,445
TOTAL	<u>\$ 291,660</u>	<u>\$ 304,242</u>	<u>\$ 595,902</u>	<u>\$ 289,584</u>	<u>\$ 63,709</u>	<u>\$ 353,293</u>

**CLEARWATER COUNCIL OF GOVERNMENTS
SCHEDULES OF ADMINISTRATIVE EXPENSES
Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Salaries, Wages, and Related Taxes and Benefits	\$ 488,313	\$ 354,476
Rent	24,242	26,175
Professional Services	18,072	26,069
Travel, Seminars, and Training	27,962	21,479
Computer Equipment	13,655	10,293
Office	5,766	9,473
Insurance - Liability	5,867	4,545
Telephone	4,670	3,204
Dues and Subscriptions	955	530
Advertising	<u>-0-</u>	<u>459</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 589,502</u>	<u>\$ 456,703</u>



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the general purpose financial statements of the Clearwater Council of Governments, Ohio as of and for the year ended December 31, 2003, and have issued our report thereon dated May 13, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Clearwater Council of Governments, Ohio's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on the compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clearwater Council of Governments, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Clearwater Council of Governments
Page Two

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Clearwater Council of Governments in a separate letter dated May 13, 2004.

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

A handwritten signature in black ink, appearing to read "Web Olin", followed by a small, illegible mark or stamp.

May 13, 2004



**Auditor of State
Betty Montgomery**

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**CLEARWATER COUNCIL OF GOVERNMENTS
OTTAWA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 16, 2004**