

CLEARWATER COUNCIL OF GOVERNMENTS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009



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, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 15, 2010

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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 modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Clearwater Council of Governments ("Council") as of and for the year ended December 31, 2009, 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.

As discussed in Note 1, Clearwater Council of Governments prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Clearwater Council of Governments as of December 31, 2009, and the respective changes in the modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basis financial statements. Such information, although not a part of the basis financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 disbursements 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.

Webster O'Brien Ltd

November 12, 2010

**Clearwater Council of Governments
Management's Discussion and Analysis
For Year Ended December 31, 2009
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, 2009, 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 assets of governmental activities increased \$1,933,634, or 58%, a significant change from the prior year. This increase is mainly attributable to receiving approximately \$1,837,000 in waiver reconciliation money from the State of Ohio. The Council's program receipts are primarily received from the State of Ohio. These receipts represent 67% of the total cash received for governmental activities during the year.

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 assets 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 money whose use is restricted to a particular specified 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, 2009
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 assets and the statement of activities reflect how the Council did financially during 2009, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balance, investments and capital assets of the governmental activities of the Council at year end. The statement of activities compares cash disbursements and program receipts for each program or function of the Council's governmental activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self financing on a modified cash basis or draws from the general receipts of the Council.

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

Reporting the Council's Most Significant Funds

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

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

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2009
Unaudited**

reporting) is combined and presented in total in a single column. The Council's only governmental fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

The Council as a Whole

Table 1 provides a summary of the Council's net assets for 2009 compared to 2008 on the modified cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>			
	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets				
Cash	\$ 53,969	\$ 50,855	\$ 3,114	6%
Investments	5,164,949	3,228,235	1,936,714	60%
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>29,086</u>	<u>35,280</u>	(6,194)	(18%)
Total Assets	<u>\$5,248,004</u>	<u>\$3,314,370</u>	<u>\$1,933,634</u>	58%
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$ 29,086	\$ 35,280	(\$ 6,194)	(18%)
Unrestricted/Undesignated	<u>5,218,918</u>	<u>3,279,090</u>	<u>1,939,828</u>	59%
Total Net Assets	<u>\$5,248,004</u>	<u>\$3,314,370</u>	<u>\$1,933,634</u>	58%

As mentioned previously, net assets of governmental activities increased \$1,933,634, or 58% during 2009. The primary reasons contributing to this increase are as follows:

- The 60% increase in investments is due to the Council receiving approximately \$1,837,000 in waiver reconciliation money from the State of Ohio that was used to purchase investments.
- The 18% decrease in capital assets is due to assets being depreciated and disposal of computer equipment.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2009
Unaudited**

Table 2 reflects the changes in net assets on the modified cash basis in 2009 and 2008 for governmental activities.

(Table 2)
Changes in Net Assets

	<u>Governmental Activities</u>			
	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Receipts				
Program Receipts:				
Waiver Revenue	\$2,605,483	\$ 544,447	\$2,061,036	379%
Other Revenue	430,037	306,855	123,182	40%
Supported Living Revenue	181,886	92,924	88,962	96%
Medicaid	154,135	170,694	(16,559)	(10%)
Administrative Fees	<u>1,275</u>	<u>1,195</u>	<u>80</u>	7%
Total Program Receipts	3,372,816	1,116,115	2,256,701	202%
General Receipts:				
Interest Income	<u>15,376</u>	<u>79,747</u>	(<u>64,371</u>)	(81%)
Total Receipts	3,388,192	1,195,862	2,192,330	183%
Disbursements:				
Program	683,895	521,633	162,262	31%
Administrative	<u>770,663</u>	<u>762,569</u>	<u>8,094</u>	1%
Total Disbursements	<u>1,454,558</u>	<u>1,284,202</u>	<u>170,356</u>	13%
Change in Net Assets	<u>\$1,933,634</u>	(<u>\$ 88,340</u>)	<u>\$2,021,974</u>	2289%

For the year ended December 31, 2009:

- The 379% increase in Waiver Revenue is due to the Council receiving approximately \$1,837,000 in waiver reconciliation money from the State of Ohio.
- The 40% increase in Other Revenue is due primarily to participating counties funding additional services provided to individuals in 2009 and one county paying the Council for future match obligations.
- The 96% increase in Supported Living Revenue is due primarily to receiving the supported living subsidy for another county in 2009.

**Clearwater Council of Governments
Management's Discussion and Analysis, Continued
For Year Ended December 31, 2009
Unaudited**

- The 10% decrease in Medicaid Revenue is due to a decrease in Targeted Case Management (TCM) monies. This decrease is due to the timing of receiving the monies from the counties.
- The 81% decrease in Interest Income is due primarily to decreased interest rates in 2009 compared to 2008.
- The 31% increase to Program Disbursements is due primarily to one county having the Council pay the County Board approximately \$155,000 for non-waiver day services and paying the State of Ohio for the Pathways Project.

General Fund

General fund net assets increased \$1,939,828 in 2009.

Capital Assets

At December 31, 2009, the Council had \$29,086 (net of accumulated depreciation) invested in capital assets for governmental activities.

Economic Factors

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

Contacting the Council's Financial Management

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2009

	Governmental <u>Activities</u>
ASSETS	
Cash	\$ 53,969
Investments	5,164,949
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>29,086</u>
TOTAL ASSETS	<u>\$ 5,248,004</u>
NET ASSETS	
Invested in Capital Assets	\$ 29,086
Unrestricted	<u>5,218,918</u>
TOTAL NET ASSETS	<u>\$ 5,248,004</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, 2009

	Cash <u>Disbursements</u>	Program Cash Receipts <u>Charges for Services</u>	Net (Disbursements) Receipts and Changes <u>in Net Assets</u>
GOVERNMENTAL ACTIVITIES			
Community Support	\$ 683,895	\$ 3,371,541	\$ 2,687,646
General and Administrative	<u>770,663</u>	<u>1,275</u>	(<u>769,388</u>)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,454,558</u>	<u>\$ 3,372,816</u>	1,918,258

General Receipts	
Interest	<u>15,376</u>
Total General Receipts	<u>15,376</u>

Change in Net Assets	1,933,634
Net Assets Beginning of Year	<u>3,314,370</u>
Net Assets End of Year	<u>\$ 5,248,004</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, 2009

	<u>General Fund</u>
ASSETS	
Cash	\$ 53,969
Investments	<u>5,164,949</u>
TOTAL ASSETS	<u>\$ 5,218,918</u>
FUND BALANCE	
Unreserved	<u>\$ 5,218,918</u>
TOTAL FUND BALANCE	<u>\$ 5,218,918</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2009

Total Governmental Fund Balance	\$ 5,218,918
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the fund.	<u>29,086</u>
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Net Assets of Governmental Activities	<u><u>\$ 5,248,004</u></u>
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"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, 2009

	<u>General Fund</u>
RECEIPTS	
Waiver Revenue	\$ 2,605,483
Other Revenue	430,037
Supported Living Revenue	181,886
Medicaid	154,135
Administrative Fees	1,275
Interest Revenue	<u>15,376</u>
TOTAL RECEIPTS	3,388,192
 DISBURSEMENTS	
Program	683,895
Administrative	<u>764,469</u>
TOTAL DISBURSEMENTS	<u>1,448,364</u>
NET CHANGE IN FUND BALANCE	1,939,828
FUND BALANCE - BEGINNING OF YEAR	<u>3,279,090</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 5,218,918</u></u>

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

**CLEARWATER COUNCIL OF GOVERNMENTS
RECONCILIATION OF NET CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE CHANGE IN NET
ASSETS OF GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2009**

Net Change in Fund Balance - Total Governmental Funds **\$ 1,939,828**

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeded capital outlays
in the current period. (5,650)

Governmental funds only report the disposal of assets to the extent
proceeds are received from the sale. In the statement of activities, a
gain or loss is reported for each disposal. This is the amount of the
loss on the disposal of capital assets net of proceeds received. (544)

Change in Net Assets of Governmental Activities **\$ 1,933,634**

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

CLEARWATER COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND NET ASSETS
FIDUCIARY FUND
Year Ended December 31, 2009

	<u>Agency</u>
RECEIPTS	
Interest Revenue	\$ 7
 DISBURSEMENTS	
Refund to Counties	<u>111,805</u>
 NET CHANGE IN NET ASSETS	 (111,798)
 NET ASSETS - BEGINNING OF YEAR	 <u>111,798</u>
 NET ASSETS - END OF YEAR	 <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, 2009

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 nine county boards of developmental disabilities in North-Central Ohio: Crawford, Erie, Huron, Marion, Morrow, Ottawa, Sandusky, 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 assets 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 assets and the statement of activities display information about the Council as a whole. These statements include the financial activities of the Council including depreciation of capital assets.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

Government-Wide Financial Statements, Continued

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

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.

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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

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.

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 appropriated section of this note.

As a result of the use of this 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 highly liquid investments with an original maturity of three months or less when purchased 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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Investments, Continued

During 2009, the Council invested in certificates of deposit, federal agency securities, money market funds, and STAR Ohio. Investments are reported at cost, except for money market funds and STAR Ohio. The Council's money market fund investments are recorded at the amount reported by Merrill Lynch at December 31, 2009. 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, 2009.

Interest receipts credited to the General Fund during 2009 was \$15,376.

Capital Assets

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

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

Accumulated Leave

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

Employer Contributions to Cost-Sharing Pension Plans

The Council recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 5 and 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-Term Obligations

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

Net Assets

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Fund Balance Reserves

The Council reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Estimates

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

Subsequent Events

Management has evaluated events and transactions from December 31, 2009 through November 12, 2010, for possible recognition or disclosure in these financial statements. This date is the date these financial statements were available to be issued. Management concluded there were no subsequent events requiring recognition or disclosure.

NOTE 2 - CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

For 2009, the Council ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 1.

**CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009**

NOTE 2 - CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY, Continued

The implementation of this change had the following effects on fund equity of the general fund of the Council as it was previously reported. The effects on net assets of governmental activities are also presented.

	<u>General Fund</u>
Fund Balance December 31, 2008, as Previously Reported	\$2,901,763
Eliminate Contracts Receivable	(411,484)
Adjust Investments from FMV to Cost	(12,440)
Eliminate Accounts Payable	93,407
Eliminate Accrued Compensation	153,719
Eliminate Deferred Revenue	<u>554,125</u>
Adjusted Fund Balance December 31, 2008	<u>\$3,279,090</u>
Governmental Activities Net Assets December 31, 2008, as Previously Reported	\$3,160,117
Eliminate Government-Wide Financial Statement Adjustments:	
Contracts Receivable	(411,484)
Adjust Investments from FMV to Cost	(12,440)
Capital Lease Asset	(20,300)
Accounts Payable	93,407
Accrued Compensation	153,719
Deferred Revenue	294,406
Compensated Absences	36,352
Capital Lease Payable	<u>20,593</u>
Adjusted Governmental Activities Net Assets December 31, 2008	<u>\$3,314,370</u>

NOTE 3 - 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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 3 - CASH AND INVESTMENTS, Continued

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;
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).

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 3 - CASH AND INVESTMENTS, Continued

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, 2009, the carrying amount of the Council's deposits was \$53,969, and the bank balance was \$55,424. Of the bank balance, \$55,424 is insured by the Federal Deposit Insurance Corporation.

Investments

As of December 31, 2009 the Council had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Carrying Value</u>
STAR Ohio	N/A	\$3,676,760
U. S. Treasury Note	08/31/2012	192,474
Federal Agency Securities		
Federal Home Loan Bank Bond	02/18/2011	100,437
Federal Home Loan Bank Bond	08/19/2011	181,704
Federal Home Loan Bank Bond	10/10/2012	193,428
Certificates of Deposit		
Certificate of Deposit	07/01/2010	100,000
Certificate of Deposit	10/30/2010	100,000
Certificate of Deposit	11/01/2010	100,000
Certificate of Deposit	11/01/2010	100,000
Certificate of Deposit	04/30/2011	100,000
Certificate of Deposit	10/30/2011	100,000
Certificate of Deposit	05/01/2012	100,000
Money Market Funds	N/A	<u>120,146</u>
Total Investments		<u>\$5,164,949</u>

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

CLEARWATER COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Year Ended December 31, 2009

NOTE 3 - CASH AND INVESTMENTS, Continued

Investments, Continued

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

NOTE 4 - CAPITAL ASSETS

A summary of the capital assets activity for the year ended December 31, 2009 is as follows:

	<u>Balance</u> <u>December 31, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2009</u>
Computers/ Equipment	\$55,745	\$2,928	(\$8,979)	\$49,694
Less Accumulated Depreciation	(20,465)	(8,578)	_ 8,435	(20,608)
Governmental Activities Capital Assets - Net	<u>\$35,280</u>	<u>(\$5,650)</u>	<u>(\$ 544)</u>	<u>\$29,086</u>

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 5 - 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 plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to 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 that may be obtained by writing to OPERS, 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 10% of qualifying gross wages for all employees for year ending December 31, 2009. The 2009 employer contribution rate for local government employers was 14% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Council's contributions to OPERS for the years ended December 2009, 2008 and 2007 were \$78,592, \$69,102 and \$56,063, respectively. All required contributions were made prior to the end of each respective year.

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

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 6 - 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 2009 employer contribution rate was 14% of covered payroll and 7% from January 1 through March 31, 2009 and 5.5% from April 1 to December 31, 2009 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, 2008. 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.

Investment Return - The investment assumption rate for 2008 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. In addition, annual pay increases over and above the 4.00% base increase, were assumed to range from .50% to 6.30%.

Health Care - Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50%-3% for the next 6 years. In subsequent years (7 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

**CLEARWATER COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 Year Ended December 31, 2009**

NOTE 6 - POST-EMPLOYMENT BENEFITS, Continued

The number of active contributing participants of the traditional pension and combined plans as of December 31, 2009 was 357,584. 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 2009 were \$33,062. The Retirement System's net assets available for OPEB have an actuarial value of \$10.7 billion as of December 31, 2008. The actuarial accrued liability as of that date was \$29.6 billion, resulting in an unfunded actuarial accrued liability of \$18.9 billion.

NOTE 7 - LEASE COMMITMENTS

The Council leases office space on a year-to-year basis. The total rent expense for the year ended December 31, 2009 was approximately \$11,600.

The Council leases equipment under a noncancelable lease. The Council disbursed \$6,821 to pay lease costs for the year ended December 31, 2009. Future lease payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2010	\$ 6,450
2011	6,450
2012	6,450
2013	6,450
2014	1,000
2015 and thereafter	<u>-0-</u>
Total	<u>\$26,800</u>

NOTE 8 - 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.

CLEARWATER COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2009

NOTE 9 - 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 for payroll and payroll services was approximately \$630,000 for the year ended December 31, 2009.

NOTE 10- 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 11 - CONTINGENCIES

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, 2007, 2008 and 2009.

CLEARWATER COUNCIL OF GOVERNMENTS
SCHEDULE OF MODIFIED CASH BASIS
GENERAL AND ADMINISTRATIVE DISBURSEMENTS
GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2009

Salaries, Wages, and Related Taxes and Benefits	\$ 539,412
Professional Services	101,023
Travel, Seminars and Training	56,818
Computer	16,843
Office	13,331
Rent	11,594
Insurance - Liability	9,390
Depreciation	8,578
Equipment	6,821
Telephone	4,357
Dues and Subscriptions	1,749
Loss on Disposal	544
Advertising	<u>203</u>
TOTAL GENERAL AND ADMINISTRATIVE DISBURSEMENTS	 <u><u>\$ 770,663</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 modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Clearwater Council of Governments ("Council") as of and for the year ended December 31, 2009, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 12, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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 Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

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

November 12, 2010

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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 28, 2010**