



Dave Yost • Auditor of State

**SOUTHWEST OHIO COUNCIL OF GOVERNMENTS
WARREN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southwest Ohio Council of Governments
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Southwest Ohio Council of Governments, Warren County, Ohio (the Council), as of and for the years ended June 30, 2014 and 2013, 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 cash accounting basis Note 2 describes. This responsibility includes determining that the 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 cash financial position of the Southwest Ohio Council of Governments, Warren County, Ohio, as of June 30, 2014 and 2013 and the respective changes in cash financial position and cash flows thereof for the years then ended in accordance with the accounting basis described in Note 2.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

www.ohioauditor.gov

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Council's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, and business type activities.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and 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 April 1, 2015 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.



Dave Yost
Auditor of State

Columbus, Ohio

April 1, 2015

Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

The discussion and analysis of the Southwest Ohio Council of Governments (the COG) financial performance provides an overview and analysis of the COG's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the COG's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the COG's financial performance.

Financial Highlights

Key highlights for 2014 are as follows:

- In total, net position decreased by \$170,364 which represents an 85% decrease from 2013. This decrease is primarily due to increases in salaries and fringe benefits expenses since FY2014 covers twelve months and FY2013 covered nine months since the COG was established in September, 2012.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the COG as a financial whole, an entire operating entity.

This discussion and analysis is intended to serve as an introduction to the COG's basic financial statements. The COG's basic financial statements are comprised of two components: the financial statements and notes to those financial statements.

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

As a result of using the 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 cash basis of accounting.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the COG did financially during the fiscal year ended June 30, 2014. These statements include all assets using the cash basis of accounting.

These statements report the COG's net position and changes in the net position. This change in net position is important because it tells the reader whether the financial position of the COG has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The COG uses enterprise presentation for all of its activities.

**Southwest Ohio Council of Governments, Warren County
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Financial Analysis

Table 1 provides a summary of the COG’s net position for fiscal year 2014 compared to fiscal year 2013:

Table 1
Net Position at Year End

| Assets: | 2014 | 2013 |
|---------------------------|----------|-----------|
| Current and Other Assets | \$30,184 | \$200,548 |
| <i>Total Assets</i> | 30,184 | 200,548 |
| | | |
| Net Position: | | |
| Unrestricted | 30,184 | 200,548 |
| <i>Total Net Position</i> | \$30,184 | \$200,548 |

Current and other assets decreased from fiscal year 2013 due to a decrease in equity in pooled cash and cash equivalents held by the COG.

The COG’s largest portion of net position is unrestricted net position. The net position represents resources that may be used to meet the COG’s ongoing obligations to its members and creditors.

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**Southwest Ohio Council of Governments, Warren County
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

Table 2 the changes in net position for fiscal year 2014 compared to fiscal year 2013:

| | 2014 | 2013 |
|-----------------------------------|------------------------|-------------------------|
| Operating Revenues: | | |
| Charges for Services | \$6,509,747 | \$5,916,515 |
| Total Operating Revenues | <u>6,509,747</u> | <u>5,916,515</u> |
| Operating Expenses: | | |
| Salaries | 5,380,604 | 4,719,751 |
| Fringe Benefits | 1,099,314 | 816,071 |
| Purchased Services | 144,916 | 125,284 |
| Other Expenses | <u>55,277</u> | <u>54,861</u> |
| Total Operating Expenses | <u>6,680,111</u> | <u>5,715,967</u> |
| Change in Net Position | (170,364) | 200,548 |
| Net Position at Beginning of Year | <u>200,548</u> | <u>0</u> |
| Net Position at End of Year | <u><u>\$30,184</u></u> | <u><u>\$200,548</u></u> |

The increase in charges for services is due to an increase in member schools in the COG. The increase in salaries is due to the COG spending more on paying substitute teachers.

The most significant program expenses for the COG are Salaries and Fringe Benefits. These programs account for 97% of the total business-type activities expenses.

The majority of the funding for the COG is from charges for services. Charges for services accounts for all revenues.

Budget Highlights

The COG is not subject to budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

The COG maintains no capital assets.

Debt Administration

At June 30, 2014, the COG had no general obligation debt outstanding.

**Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

Current Issues

Management believes that the COG is financially stable. As indicated in the preceding financial information, the COG is dependent on charges for services. Charges for services revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning will permit the COG to provide quality services for the member schools of the COG.

Contacting the COG's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the COG's finances and to show the COG's accountability for the money it received. If you have any questions about this report or need additional information, contact Alleyn Unversaw, Fiscal officer for the COG, 1879 Deerfield Road Lebanon, Ohio 45036.

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Southwest Ohio Council of Governments, Warren County
Statement of Net Position - Cash Basis
June 30, 2014

| | <u>Southwest Ohio Council of Governments</u> |
|--|--|
| Assets: | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$30,184</u> |
| Total Assets | <u>30,184</u> |
| Net Position: | |
| Unrestricted | <u>30,184</u> |
| Total Net Position | <u><u>\$30,184</u></u> |

See accompanying notes to the basic financial statements.

Southwest Ohio Council of Governments, Warren County
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis
For the Fiscal Year Ended June 30, 2014

| | Southwest Ohio Council of Governments |
|----------------------------------|--|
| Operating Revenues: | |
| Charges for Services | \$6,509,747 |
| Total Operating Revenues | <u>6,509,747</u> |
| Operating Expenses: | |
| Salaries | 5,380,604 |
| Fringe Benefits | 1,099,314 |
| Purchased Services | 144,916 |
| Other Expenses | <u>55,277</u> |
| Total Operating Expenses | <u>6,680,111</u> |
| Change in Net Position | (170,364) |
| Net Position - Beginning of Year | <u>200,548</u> |
| Net Position - End of Year | <u><u>\$30,184</u></u> |

See accompanying notes to the basic financial statements.

Southwest Ohio Council of Governments, Warren County
Statement of Cash Flows - Cash Basis
For the Fiscal Year Ended June 30, 2014

| | Southwest Ohio Council of Governments |
|--|--|
| Cash Flows from Operating Activities: | |
| Cash Received from Member Districts | \$6,509,747 |
| Cash Payments to Employees | (5,380,604) |
| Cash Payments to Fringe Benefits | (1,099,314) |
| Cash Payments to Suppliers | (144,916) |
| Cash Payments for Other Expenses | (55,277) |
| | <hr/> |
| Net Cash Provided (Used) by Operating Activities | (170,364) |
| | <hr/> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (170,364) |
| | <hr/> |
| Cash and Cash Equivalents Beginning of Year | 200,548 |
| | <hr/> |
| Cash and Cash Equivalents End of Year | 30,184 |
| | <hr/> <hr/> |
| Reconciliation of Operating Income (Loss) to | |
| Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (170,364) |
| | <hr/> |
| Net Cash Provided (Used) by Operating Activities | (\$170,364) |
| | <hr/> <hr/> |

See accompanying notes to the basic financial statements.

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Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the COG and Reporting Entity

Description of the COG

The Southwest Ohio Council of Governments (the "COG"), is a body Corporate and Politic established pursuant to Ohio Revised Code Chapter 167, by agreement of its members. The COG is a collaborative Warren County Educational Service Center. The COG is currently providing services for twenty-four member school districts and other entities in Warren County, principally providing substitute teachers and substitute classified personnel. Warren County Educational Service Center acts as a fiscal officer for the COG.

The governing authority of Southwest Ohio Council of Governments (COG) is the COG Board, which is comprised of two superintendents, two board members and one treasurer. All members are from The Warren County ESC. The Officer positions of the COG Board are President, Vice-President and Secretary. Currently, the Warren County ESC Superintendent is appointed President. All other officers serve until his/her successor is appointed.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the COG consists of all funds, departments, boards, and agencies that are not legally separate from the COG. For the COG, this is the general operation.

Component units are legally separate organizations for which the COG is financially accountable. The COG is financially accountable for an organization if the COG appoints a voting majority of the organization's governing board and (1) the COG is able to significantly influence the programs or services performed or provided by the organization; or (2) the COG is legally entitled to or can otherwise access the organization's resources; the COG is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the COG is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the COG in that the COG approves the budget, the issuance of debt, or the levying of taxes. The COG has no component units.

Note 2 - Summary of Significant Accounting Policies

These financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the COG's accounting policies:

Basis of Presentation

The COG's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The COG uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position and financial position.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Measurement Focus

The COG uses a cash basis of accounting for reporting purposes. Revenues are recognized when they are received, and expenses are recognized when they are paid.

Basis of Accounting

The COG's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the COG'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 the liability is incurred.

As a result of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities (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. If the COG utilized the basis of accounting recognized as generally accepted, the fund and all government-wide financials would be presented on the accrual basis of accounting

Cash and Cash Equivalents

To improve cash management, cash received by the COG is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through COG records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Following Ohio statutes, the Board of Directors has, by resolution, specified the funds to receive an allocation of interest earnings. No interest revenue was credited during Fiscal Year 2014.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the COG or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The COG applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the COG. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the COG. All revenues and expenditures not meeting this definition are reported as non-operating.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 3 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the COG 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 public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 deposits are deposits of interim moneys. Interim moneys are those moneys which 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 accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. Protection of the COG's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Fiscal officer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, 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 any other obligations or securities 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. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited.

The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the COG, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Fiscal officer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the COG's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the COG.

At June 30, 2014, the carrying amount of all COG deposits was \$30,184. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2014, all of the COG's bank balance of \$154,222 was covered by Federal Deposit Insurance.

Investments

As of June 30, 2014, the COG did not have any investments.

Note 4 - Risk Management

The COG 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 COG carries insurance coverage with the following companies.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

| <u>COVERAGE</u> | <u>COMPANY</u> |
|-------------------|--------------------------------|
| Automobile | The Argonaut Insurance Company |
| Property | The Argonaut Insurance Company |
| General Liability | The Argonaut Insurance Company |

Limits and deductible amounts for the above policies vary accordingly.

| <u>COVERAGE</u> | <u>LIMITS</u> | <u>DEDUCTIBLE</u> |
|-------------------|--|-------------------|
| Automobile | \$1,000,000 each occurrence | \$500 collision |
| Property | \$1,000,000 each occurrence | \$500 each loss |
| General Liability | \$1,000,000 each occurrence \$2,000,000 general aggregate | |

The COG pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Settled claims have not exceeded the commercial coverage in any of the past years. There have been no significant reductions in insurance coverage from last year.

Note 5 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The COG contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor 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 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the COG is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The COG's contributions to SERS for the years ended June 30, 2014 and 2013 were \$90,426 and \$41,622, respectively; 100% has been contributed for each year.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

State Teachers Retirement System of Ohio

Plan Description

The COG participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public COGs of Ohio or any COG, community COG, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The COG's contributions to STRS for the years ended June 30, 2014 and 2013 were \$606,694 and \$417,732 respectively; 100% has been contributed for each year.

Note 6- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was .74%. COG contributions for the years ended June 30, 2014 and 2013 were \$5,195 and \$2,214, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2014, the health care allocation was .16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The COG contributions assigned to health care for the years ended June 30, 2014 and 2013 were \$962 and \$506 respectively; 100% has been contributed for each year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014 and 2013. The 14% employer contribution rate is the maximum rate established under Ohio law. The COG contributions for the years ended June 30, 2014 and 2013 were \$46,597 and \$32,084, 100% has been contributed for fiscal years 2014 and 2013.

Note 7 - Jointly Governed Organizations

Southwestern Ohio Computer Association

The Southwestern Ohio Computer Association (SWOCA) is a governmental jointly governed organization. SWOCA is an association of public school districts within the boundaries of Warren, Preble, and Butler counties and involves all cities that have school districts within these counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. SWOCA is governed by a board of directors consisting of one representative from each of the participating members. The COG paid SWOCA a fee for services provided during the year. Financial information may be obtained from Mike Crumley at the Butler County Joint Vocational School, 3603 Hamilton-Middletown Road, Hamilton, Ohio.

Note 8 – Contingencies

Litigation

The COG's attorney estimates that all other potential claims against the COG not covered by insurance resulting from all other litigation would not materially affect the financial statements of the COG.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 9 – Outstanding Receivables

The Fiscal Agent is completing a full reconciliation of all expenditures and revenues for FY 2013 and FY 2014. Since the COG is a new entity the Fiscal Agent wants to ensure that it is charging and collecting all revenues from its clients. The reconciliation is complete for FY 2013 and the Fiscal Agent determined that all expenses were covered by its revenues. The FY 2014 reconciliation will be completed by the end of FY 2015. If any funds are owed to the COG the Fiscal Agent will follow up with the clients and pursue collection. The Fiscal Agent will also be recommending changes to the billing process for FY 2016 to ensure that all revenues are collected in a timely manner and to stabilize the COG's cash flow. Currently, the Warren County Educational Service Center has to pre-pay for Aide services early in the fiscal year in order for the COG to have enough cash to operate.

Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

The discussion and analysis of the Southwest Ohio Council of Governments (the COG) financial performance provides an overview and analysis of the COG's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the COG's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the COG's financial performance.

Financial Highlights

Key highlight for 2013 are as follows:

- Total Net Position was \$200,548 for 2013 for the first year of the COG's operations.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the COG as a financial whole, an entire operating entity.

This discussion and analysis is intended to serve as an introduction to the COG's basic financial statements. The COG's basic financial statements are comprised of two components: the financial statements and notes to those financial statements.

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

As a result of using the 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 cash basis of accounting.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the COG did financially during the fiscal year ended June 30, 2013. These statements include all assets using the cash basis of accounting.

These statements report the COG's net position and changes in the net position. This change in net position is important because it tells the reader whether the financial position of the COG has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The COG uses enterprise presentation for all of its activities.

**Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Financial Analysis

Table 1 provides a summary of the COG's net position for fiscal year 2013:

Table 1
Net Position at Year End

| | |
|---------------------------|------------------|
| Assets: | 2013 |
| Current and Other Assets | \$200,548 |
| <i>Total Assets</i> | <u>200,548</u> |
| Net Position: | |
| Unrestricted | <u>200,548</u> |
| <i>Total Net Position</i> | <u>\$200,548</u> |

The COG's largest portion of net position is unrestricted net position. The net position represents resources that may be used to meet the COG's ongoing obligations to its members and creditors.

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Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 2 the changes in net position for fiscal year 2013. Since this is the first year the COG has been established, revenue and expense comparisons to the prior year are not available.

Table 2
Changes in Net Position

| | <u>2013</u> |
|-----------------------------------|-------------------------|
| Operating Revenues: | |
| Charges for Services | \$5,916,515 |
| Total Operating Revenues | <u>5,916,515</u> |
| Operating Expenses: | |
| Salaries | 4,719,751 |
| Fringe Benefits | 816,071 |
| Purchased Services | 125,284 |
| Other Expenses | <u>54,861</u> |
| Total Operating Expenses | <u>5,715,967</u> |
| Change in Net Position | 200,548 |
| Net Position at Beginning of Year | <u>0</u> |
| Net Position at End of Year | <u><u>\$200,548</u></u> |

The most significant program expenses for the COG are Salaries and Fringe Benefits. These programs account for 97% of the total business-type activities expenses.

The majority of the funding for the COG is from charges for services. Charges for services accounts for all revenues.

Budget Highlights

The COG is not subject to budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

The COG maintains no capital assets.

Debt Administration

At June 30, 2013, the COG had no general obligation debt outstanding.

**Southwest Ohio Council of Governments, Warren County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)**

Current Issues

Management believes that the COG is financially stable. As indicated in the preceding financial information, the COG is dependent on charges for services. Charges for services revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning will permit the COG to provide quality services for the member schools of the COG.

Contacting the COG's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the COG's finances and to show the COG's accountability for the money it received. If you have any questions about this report or need additional information, contact Alleyn Unversaw, Fiscal officer for the COG, 1879 Deerfield Road Lebanon, Ohio 45036.

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Southwest Ohio Council of Governments, Warren County
Statement of Net Position - Cash Basis
June 30, 2013

| | <u>Southwest Ohio Council of Governments</u> |
|--|--|
| Assets: | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$200,548</u> |
| Total Assets | <u>200,548</u> |
| Net Position: | |
| Unrestricted | <u>200,548</u> |
| Total Net Position | <u><u>\$200,548</u></u> |

See accompanying notes to the basic financial statements.

Southwest Ohio Council of Governments, Warren County
 Statement of Revenues, Expenses and Changes in Net Position - Cash Basis
 For the Fiscal Year Ended June 30, 2013

| | Southwest Ohio Council of Governments |
|----------------------------------|--|
| Operating Revenues: | |
| Charges for Services | \$5,916,515 |
| Total Operating Revenues | <u>5,916,515</u> |
| Operating Expenses: | |
| Salaries | 4,719,751 |
| Fringe Benefits | 816,071 |
| Purchased Services | 125,284 |
| Other Expenses | 54,861 |
| Total Operating Expenses | <u>5,715,967</u> |
| Change in Net Position | 200,548 |
| Net Position - Beginning of Year | <u>0</u> |
| Net Position - End of Year | <u><u>\$200,548</u></u> |

See accompanying notes to the basic financial statements.

Southwest Ohio Council of Governments, Warren County
Statement of Cash Flows - Cash Basis
For the Fiscal Year Ended June 30, 2013

| | <u>Southwest Ohio Council of Governments</u> |
|--|--|
| Cash Flows from Operating Activities: | |
| Cash Received from Member Districts | \$5,916,515 |
| Cash Payments to Employees | (4,719,751) |
| Cash Payments to Fringe Benefits | (816,071) |
| Cash Payments to Suppliers | (125,284) |
| Cash Payments for Other Expenses | <u>(54,861)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>200,548</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 200,548 |
| Cash and Cash Equivalents Beginning of Year | <u>0</u> |
| Cash and Cash Equivalents End of Year | <u><u>200,548</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | <u>200,548</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$200,548</u></u> |

See accompanying notes to the basic financial statements.

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Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the COG and Reporting Entity

Description of the COG

The Southwest Ohio Council of Governments (the "COG"), is a body Corporate and Politic established pursuant to Ohio Revised Code Chapter 167, by agreement of its members. The COG is a collaborative Warren County Educational Service Center. The COG is currently providing services for twenty-four member school districts and other entities in Warren County, principally providing substitute teachers and substitute classified personnel. Warren County Educational Service Center acts as a fiscal officer for the COG.

The governing authority of Southwest Ohio Council of Governments (COG) is the COG Board, which is comprised of two superintendents, two board members and one treasurer. All members are from The Warren County ESC. The Officer positions of the COG Board are President, Vice-President and Secretary. Currently, the Warren County ESC Superintendent is appointed President. All other officers serve until his/her successor is appointed.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the COG consists of all funds, departments, boards, and agencies that are not legally separate from the COG. For the COG, this is the general operation.

Component units are legally separate organizations for which the COG is financially accountable. The COG is financially accountable for an organization if the COG appoints a voting majority of the organization's governing board and (1) the COG is able to significantly influence the programs or services performed or provided by the organization; or (2) the COG is legally entitled to or can otherwise access the organization's resources; the COG is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the COG is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the COG in that the COG approves the budget, the issuance of debt, or the levying of taxes. The COG has no component units.

Note 2 - Summary of Significant Accounting Policies

These financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the COG's accounting policies:

Basis of Presentation

The COG's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The COG uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position and financial position.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Measurement Focus

The COG uses a cash basis of accounting for reporting purposes. Revenues are recognized when they are received, and expenses are recognized when they are paid.

Basis of Accounting

The COG's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the COG'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 the liability is incurred.

As a result of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities (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. If the COG utilized the basis of accounting recognized as generally accepted, the fund and all government-wide financials would be presented on the accrual basis of accounting

Cash and Cash Equivalents

To improve cash management, cash received by the COG is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through COG records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Following Ohio statutes, the Board of Directors has, by resolution, specified the funds to receive an allocation of interest earnings. No interest revenue was credited during Fiscal Year 2013.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the COG or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The COG applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the COG. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the COG. All revenues and expenditures not meeting this definition are reported as non-operating.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 3 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the COG 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 public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 deposits are deposits of interim moneys. Interim moneys are those moneys which 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 accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. Protection of the COG's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Fiscal officer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, 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 any other obligations or securities 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. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited.

The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the COG, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Fiscal officer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the COG's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the COG.

At June 30, 2013, the carrying amount of all COG deposits was \$200,548. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2013, \$138,950 of the COG's bank balance of \$391,227 was exposed to custodial risk as discussed above, while \$252,277 was covered by Federal Deposit Insurance.

Investments

As of June 30, 2013, the COG did not have any investments.

Note 4 - Risk Management

The COG 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 COG carries insurance coverage with the following companies.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

| <u>COVERAGE</u> | <u>COMPANY</u> |
|-------------------|--------------------------------|
| Automobile | The Argonaut Insurance Company |
| Property | The Argonaut Insurance Company |
| General Liability | The Argonaut Insurance Company |

Limits and deductible amounts for the above policies vary accordingly.

| <u>COVERAGE</u> | <u>LIMITS</u> | <u>DEDUCTIBLE</u> |
|-------------------|--|-------------------|
| Automobile | \$1,000,000 each occurrence | \$500 collision |
| Property | \$1,000,000 each occurrence | \$500 each loss |
| General Liability | \$1,000,000 each occurrence \$2,000,000 general aggregate | |

The COG pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Settled claims have not exceeded the commercial coverage in any of the past years. There have been no significant reductions in insurance coverage from last year.

Note 5 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The COG contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor 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 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the COG is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The COG's contribution to SERS for the years ended June 30, 2013 was \$41,622; 100% has been contributed for 2013.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

State Teachers Retirement System of Ohio

Plan Description

The COG participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public COGs of Ohio or any COG, community COG, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary

Southwest Ohio Council of Governments, Warren County
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of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013, were 10% of covered payroll for members and 14% for employers. The COG's contribution to STRS for the years ended June 30, 2013 was \$417,732, respectively; 100% has been contributed for 2013.

Note 6- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

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In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was .74%. COG contributions for the year ended June 30, 2013 was \$2,214, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2013, the health care allocation was .16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The COG contribution assigned to health care for the year ended June 30, 2013 was \$506, respectively; 100% has been contributed for fiscal year 2013.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Southwest Ohio Council of Governments, Warren County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2013. The 14% employer contribution rate is the maximum rate established under Ohio law. The COG contribution for the year ended June 30, 2013 was \$32,084, 100% has been contributed for fiscal year 2013.

Note 7 - Jointly Governed Organizations

Southwestern Ohio Computer Association

The Southwestern Ohio Computer Association (SWOCA) is a governmental jointly governed organization. SWOCA is an association of public school districts within the boundaries of Warren, Preble, and Butler counties and involves all cities that have school districts within these counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. SWOCA is governed by a board of directors consisting of one representative from each of the participating members. The COG paid SWOCA a fee for services provided during the year. Financial information may be obtained from Mike Crumley at the Butler County Joint Vocational School, 3603 Hamilton-Middletown Road, Hamilton, Ohio.

Note 8 – Contingencies

Litigation

The COG's attorney estimates that all other potential claims against the COG not covered by insurance resulting from all other litigation would not materially affect the financial statements of the COG.

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Dave Yost • Auditor of State

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

Southwest Ohio Council of Governments
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

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 financial statements of the business-type activities of the Southwest Ohio Council of Governments, Warren County, Ohio (the Council) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated April 1, 2015, wherein we noted the Council uses a special purpose framework other than generally accepted accounting principles.

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 opinion 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 Entity'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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

April 1, 2015



Dave Yost • Auditor of State

SOUTHWEST OHIO COUNCIL OF GOVERNMENTS

WARREN 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
MAY 7, 2015**