



Dave Yost • Auditor of State



MIDLAND COUNCIL OF GOVERNMENTS  
WAYNE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Midland Council of Governments  
Wayne County  
2125-B Eagle Pass Road  
Wooster, Ohio 44691

To the Executive Committee:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts, and disbursements by fund type, and related notes of the Midland Council of Governments, Wayne County, Ohio, (the Council) as of and for the years ended June 30, 2015 and 2014.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Council prepared the financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Council does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2015 and 2014, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance of the Midland Council of Governments, Wayne County, Ohio, as of June 30, 2015 and 2014, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 29, 2016

**Midland Council of Governments**  
**Wayne County, Ohio**  
Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balance - General Fund  
For the Fiscal Year Ended June 30, 2015

		General Fund
Cash Receipts:		
Intergovernmental	\$	458,893
Charges for Services		4,233,637
Investment Income		560
Other Revenue		6,986
		6,986
Total Cash Receipts		4,700,076
Cash Disbursements:		
Salaries		1,672,947
Employee Benefits		572,625
Purchased Services		1,010,518
Materials and Supplies		686,418
Distributions to Member Districts		218,704
Other		35,990
Capital Outlay		294,655
Debt Service:		
Redemption of Principal		65,000
Interest and Fiscal Charges		16,867
		81,867
Total Cash Disbursements		4,573,724
Net Change in Fund Cash Balance		126,352
Fund Cash Balance, July 1, 2014		1,175,093
Fund Cash Balance, June 30, 2015:		
Assigned		553,193
Unassigned		748,252
		1,301,445
Total Fund Cash Balance, June 30, 2015	\$	1,301,445

See accompanying notes to the financial statements.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balance - General Fund  
For the Fiscal Year Ended June 30, 2014

	<u>General Fund</u>
Cash Receipts:	
Intergovernmental	\$ 455,555
Charges for Services	4,070,684
Investment Income	353
Other Revenue	<u>7,955</u>
Total Cash Receipts	<u>4,534,547</u>
Cash Disbursements:	
Salaries	1,705,068
Employee Benefits	605,195
Purchased Services	1,006,067
Materials and Supplies	859,957
Distributions to Member Districts	124,158
Other	35,085
Capital Outlay	169,355
Debt Service:	
Redemption of Principal	65,000
Interest and Fiscal Charges	<u>18,869</u>
Total Cash Disbursements	<u>4,588,754</u>
Net Change in Fund Cash Balance	(54,207)
Fund Cash Balance, July 1, 2013	<u>1,229,300</u>
Fund Cash Balance, June 30, 2014:	
Assigned	344,477
Unassigned	<u>830,616</u>
Total Fund Cash Balance, June 30, 2014	<u><u>\$ 1,175,093</u></u>

See accompanying notes to the financial statements.



**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014

**1 - Summary of Significant Accounting Policies**

***A. Description of the Entity***

The Midland Council of Governments, Wayne County, Ohio, (the Council) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Eligible members of the Council include 21 school districts, of which one is an educational service center, and two are career centers in Wayne, Ashland, Holmes and Medina counties. Each member's Board appoints its Superintendent or Superintendent's designee to act as its representative at Council meetings and for all Council activities. The Council is directed by an appointed seven-member Executive Committee. The Council provides computer and data processing services to its members and other government entities.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

***B. Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Council recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

***C. Cash***

Investments are included in the cash fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer. Repurchase agreements are valued at cost.

***D. Fund Accounting***

The Council uses fund accounting to segregate cash and investments that are restricted as to use. Following is a description of the Council's fund:

*General Fund*

The General Fund reports all financial resources except those required to be accounted for in another fund.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014

***E. Budgetary Process***

The Ohio Revised Code does not require the Council to budget annually. However, management prepares a budget for internal monitoring. A summary of 2015 and 2014 budgetary activity appears in Note 2.

***F. Property, Plant and Equipment***

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

***G. Accumulated Leave***

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

***H. Pensions***

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***I. Fund Balance***

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Council classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Midland Council of Governments**  
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*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Council Executive Committee. Those committed amounts cannot be used for any other purpose unless the Council Executive Committee removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the Council for specific purposes but do not meet the criteria to be classified as restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Council Executive Committee. The Executive Committee has, by resolution, authorized the Executive Director to assign fund balance. The Council Executive Committee may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications.

***J. Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2015, the Council has implemented (as they pertain to the Regulatory Basis of Accounting) Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. See Note 4 for further information.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Council.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See Note 4 for further information.

**Midland Council of Governments**  
**Wayne County, Ohio**  
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For the Years Ended June 30, 2015 and 2014

**2 - Budgetary Activity**

Budgetary activity for the years ending June 30, 2015 and 2014 is as follows:

2015 Budget vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,588,757	\$ 4,700,076	\$ 111,319

2015 Budget vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 4,973,362	\$ 5,126,917	\$(153,555)

2014 Budget vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,113,762	\$ 4,534,547	\$ 420,785

2014 Budget vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 4,578,450	\$ 4,933,231	\$(354,781)

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014

**3 - Equity in Pooled Cash and Investments**

The Council maintains a cash and investment pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2015 and 2014 was as follows:

	2015	2014
Demand Deposits	\$ (38,225)	\$ (35,785)
STAR Ohio	1,214,595	995,803
Repurchase Agreement	125,000	215,000
Petty Cash	75	75
<b>Total Deposits and Investments</b>	<b>\$ 1,301,445</b>	<b>\$ 1,175,093</b>

The Council had a negative balance in their demand deposits at June 30, 2015 and 2014 due to the funds being invested in overnight repurchase agreements.

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by securities specifically pledged by the financial institution to the Council or (3) collateralized by the financial institution’s public entity deposit pool.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Council’s deposits may not be returned to it. Protection of Council cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**Investments:** Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form.

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 June 30, 2015.

Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2015 and 2014, is 53 and 51 days, respectively, and carries a rating of AAAM by Standard and Poor’s.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014

**4 - Defined Benefit Pension Plans**

*Net Pension Liability*

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Council’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Council’s obligation for this liability to annually required payments. The Council cannot control benefit terms or the manner in which pensions are financed; however, the Council does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – Council non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Midland Council of Governments**  
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Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017*
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal years ended June 30, 2015 and 2014, the allocation to pension, death benefits, and Medicare B was 13.18 and 13.86 percent, respectively. The remaining 0.82 and 0.14 percent of the 14 percent employer contribution rate for fiscal years 2015 and 2014, respectively, was allocated to the Health Care Fund.

The Council’s contractually required contribution to SERS for fiscal year 2015 and 2014 was \$173,468 and \$182,503, respectively.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – Council licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among 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. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



**Midland Council of Governments**  
**Wayne County, Ohio**  
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Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Council was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Council’s contractually required contribution to STRS for fiscal year 2015 and 2014 were \$47,249 and \$43,205, respectively.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Council's proportion of the net pension liability was based on the Council's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 785,465	\$ 2,293,366	\$ 3,078,831
Proportion of the Net Pension Liability	0.00322925%	0.04531500%	

***Actuarial Assumptions - SERS***

SERS’ total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

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Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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***Sensitivity of the Council's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Council's proportionate share of the net pension liability	\$ 3,271,952	\$ 2,293,366	\$ 1,470,291

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	100.00 %	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the Council's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Council's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Council's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Council's proportionate share of the net pension liability	\$ 1,124,479	\$ 785,465	\$ 498,774

**Midland Council of Governments**  
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**5 - Postemployment Benefits**

***A. School Employees Retirement System***

Health Care Plan Description - The Council contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Council's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015 and 2014 were \$11,316 and \$3,765, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

***B. State Teachers Retirement System***

Plan Description - The Council participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

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Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Council’s contributions for health care for the fiscal years ended June 30, 2015 and 2014 were \$0 and \$3,323 respectively. The full amount has been contributed for fiscal years 2015 and 2014.

**6 - Risk Management**

The Council participates in the Schools of Ohio Risk Sharing Authority Board (SORSA). SORSA is an Ohio non-profit organization formed by Ohio Councils to provide cost effective pooled insurance to its members. SORSA is a self-funded, group insurance consortium that offers property, electronic data processing, boiler and machinery, crime, general liability, automobile liability and physical damage, and school board errors and omissions insurance coverage. SORSA is governed by a Board of Directors comprised of representatives of Councils that participate in the program.

Financial Position – Schools of Ohio Risk Sharing Authority Board’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at June 30, 2014 and 2013 (the most recent available):

	2014	2013
Assets	\$ 2,820,662	\$ 2,096,215
Less Liabilities	(1,647,624)	(1,504,519)
Net Position	\$ 1,173,038	\$ 591,696

The complete audited financial statements for the Schools of Ohio Risk Sharing Authority Board are available at the Board’s website, [www.sorsaschools.org](http://www.sorsaschools.org). Settled claims have not exceeded this commercial coverage in any of the last three years and coverages have not decreased in the past year. The Council also provides health insurance and dental and vision coverage to full-time employees through the Tri-County Educational Service Center Joint Self-Insurance Plan.

**7 - Treasurer Services**

The Council contracted the services of a Certified Treasurer through the Tri-County Educational Service Center, Wayne County, Ohio until January 2015, when the Council hired its own in-house Treasurer.

**8 - Contingent Liabilities**

Management believes there are no pending claims or lawsuits.

**Midland Council of Governments**  
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**9 - Debt**

On March 20, 2013, the Council took out a loan in the amount of \$650,000 to purchase a building. The loan was issued for a period of 120 months with an interest rate of 3 percent. Monthly payments are \$5,416.66 plus interest with the final payment due March 20, 2023. The annual loan payments are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 65,000	\$ 14,456	\$ 79,456
2017	65,000	12,441	77,441
2018	65,000	10,464	75,464
2019	65,000	8,487	73,487
2020	65,000	6,526	71,526
2021-2023	<u>178,751</u>	<u>2,345</u>	<u>181,096</u>
Total	<u>503,751</u>	<u>54,719</u>	<u>558,470</u>

**10 - Encumbrance Commitments**

Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the Council's commitments for encumbrances in the general fund were as follows:

	<u>2015</u>	<u>2014</u>
General Fund	<u>\$ 553,193</u>	<u>\$ 344,477</u>

**11 - Fund Balance**

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Council is bound to observe constraints imposed upon the use of the resources in governmental funds.

**Midland Council of Governments**  
**Wayne County, Ohio**  
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The constraints placed on fund balance for the General Fund is presented as follows:

	2015	2014
Assigned for:		
Encumbrances:		
Personal Services	\$ 27,894	\$ 0
Purchased Services	52,792	71,719
Materials and Supplies	55,668	115,410
Capital Outlay	221,555	9,386
Other	195,284	147,962
Total Assigned	553,193	344,477
Unassigned	748,252	830,616
	\$ 1,301,445	\$ 1,175,093

**12 – Subsequent Events**

The Council entered into a Lease-Purchase agreement with Key Government Finance, Inc. on July 22, 2015 in the amount of \$342,545 for the purchase of equipment.





# 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

Midland Council of Governments  
Wayne County  
2125-B Eagle Pass Road  
Wooster, Ohio 44691

To the Executive Committee:

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 Midland Council of Governments, Wayne County, Ohio, (the Council) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2016, wherein we noted the Council followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***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 Council's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 29, 2016

MIDLAND COUNCIL OF GOVERNMENTS  
WAYNE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015 AND 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Financial Statement Reporting	Yes	

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# Dave Yost • Auditor of State

**MIDLAND COUNCIL OF GOVERNMENTS**

**WAYNE 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 3, 2016**