

Southwest Ohio Council of Governments  
Warren County  
Regular Audit  
For the Fiscal Years Ended June 30, 2018 and 2017



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# OHIO AUDITOR OF STATE KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Southwest Ohio Council of Governments, Warren County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2016 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

March 5, 2019

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**Southwest Ohio Council of Governments**  
**Warren County**  
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*For the Fiscal Years Ended June 30, 2018 and 2017*

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**Independent Auditor's Report**

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

***Report on the Financial Statements***

We have audited the accompanying cash basis financial statements of the Southwest Ohio Council of Governments, Warren County, (the COG) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the COG'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 COG'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 COG's internal control. Accordingly, we express no such 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 cash financial position of the Southwest Ohio Council of Governments, Warren County, as of June 30, 2018 and 2017, and the changes in cash financial position and cash flows thereof for the years then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

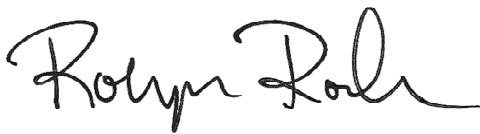
We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Emphasis of a Matter***

As discussed in Note 9 to the fiscal year 2018 notes to the basic financial statements, the COG adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". We did not modify our opinion regarding this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the COG'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 the effectiveness of the COG's 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 COG's internal control over financial reporting and compliance.



Robyn Roush, CPA, CITP  
Vice-President/Owner  
Millhuff-Stang, CPA, Inc.  
Chillicothe, Ohio

December 28, 2018



Southwest Ohio Council of Governments, Warren County  
Statement of Net Position - Cash Basis  
June 30, 2018

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	<u>Southwest Ohio Council of Governments</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$983,112</u>
Total Assets	<u>983,112</u>
Net Position:	
Unrestricted	<u>983,112</u>
Total Net Position	<u><u>\$983,112</u></u>

See accompanying notes to the basic financial statements.

Southwest Ohio Council of Governments, Warren County  
Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis  
For the Fiscal Year Ended June 30, 2018

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	Southwest Ohio Council of Governments
Operating Receipts:	
Charges for Services	\$9,921,958
Total Operating Receipts	<u>9,921,958</u>
Operating Disbursements:	
Salaries	7,273,463
Fringe Benefits	1,956,115
Purchased Services	249,900
Other Disbursements	<u>123,515</u>
Total Operating Disbursements	<u>9,602,993</u>
Change in Net Position	318,965
Net Position - Beginning of Year	<u>664,147</u>
Net Position - End of Year	<u><u>\$983,112</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, 2018

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	Southwest Ohio Council of Governments
Cash Flows from Operating Activities:	
Cash Received from Member Districts	\$9,921,958
Cash Payments to Employees	(7,273,463)
Cash Payments to Fringe Benefits	(1,956,115)
Cash Payments to Suppliers	(249,900)
Cash Payments for Other Disbursements	(123,515)
	<hr/>
Net Cash Provided (Used) by Operating Activities	318,965
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	318,965
	<hr/>
Cash and Cash Equivalents Beginning of Year	664,147
	<hr/>
Cash and Cash Equivalents End of Year	983,112
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	318,965
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$318,965
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See accompanying notes to the basic financial statements.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Note 1 - Description of the COG and Reporting Entity**

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**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 jointly governed organization of the Warren County Educational Service Center and the Warren County Commissioners. The COG is currently providing services for eighteen member school districts and other entities in southwest Ohio, 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 five board members. There are three Warren County ESC representatives including the treasurer, and two Warren County Commissioner representatives. The Warren County ESC superintendent is the current board president. The Officer positions of the COG Board are President and Treasurer.

**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**

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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 – cash basis, a statement of receipts, disbursements, and changes in net position – cash basis, and a statement of cash flows – cash basis.

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, 2018**

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**Measurement Focus**

The COG uses a cash basis of accounting for reporting purposes. Receipts are recognized when they are received, and disbursements 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 receipts (such as accounts receivable and receipt billed for provided services not yet collected) and certain liabilities (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements 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 financial statements 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 receipts were credited during Fiscal Year 2018.

**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 disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

**Operating Receipts and Disbursements**

Operating receipts are those receipts that are generated directly from the primary activity of the COG. Operating disbursements are necessary costs incurred to provide the good or service that is the primary activity of the COG. All receipts and disbursements 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, 2018**

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**Pensions/Other Postemployment Benefits (OPEB)**

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

**Note 3 - Deposits and Investments**

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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 five 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.

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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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.
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 forty 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.

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the COG will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2018, the carrying amount of all COG deposits was \$983,112. As of June 30, 2018, the COG's bank balance of \$1,069,399 was covered by FDIC or collateralized as discussed below.

The COG has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the COG and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

### **Investments**

As of June 30, 2018, the COG did not have any investments.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Note 4 - Risk Management**

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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.

<u>COVERAGE</u>	<u>COMPANY</u>
Educators Legal Liability	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>
Educators Legal Liability	\$1,000,000 each occurrence \$3,000,000 general aggregate	\$2,500 each wrongful act
General Liability	\$1,000,000 each occurrence \$3,000,000 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 three years. There have been no significant reductions in insurance coverage from last year.

**Note 5 - Defined Benefit Pension Plans**

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**Net Pension Liability**

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 employer’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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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



**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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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 – 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.

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; 2.20% for the first thirty years of service and 2.50% 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 three percent cost - of - living adjustments (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefits.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the employer is required to contribute 14% 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% for plan members and 14% 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 year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% was allocated to the Health Care Fund.

The contractually required contribution to SERS was \$390,964 for fiscal year 2018.

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

Plan Description – 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).

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 is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has 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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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10 years of qualifying service credit to 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.

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. For the fiscal year ended June 30, 2018, plan members were required to contribute 14% of their annual covered salary. The employer was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was \$615,842 for fiscal year 2018

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on the share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,359,039	\$10,602,719	\$13,961,758
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0562203%	0.04463323%	
Prior Measurement Date	<u>0.0433938%</u>	<u>0.04563881%</u>	
Change in Proportionate Share	0.01282650%	-0.00100558%	

**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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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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.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in the 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 an arithmetic weighted average 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.50%
US Stocks	22.50%	4.75%
Non-US Stocks	22.50%	7.00%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	8.00%
Real Assets	15.00%	5.00%
Multi-Asset Strategies	10.00%	3.00%
Total	100.00%	

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Discount Rate**

The total pension liability was calculated using the discount rate of 7.50%. 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 7.50%. 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.

**Sensitivity of the 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 7.50%, 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 6.50%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$4,661,473	\$3,359,039	\$2,267,985

**Actuarial Assumptions – STRS**

Key methods and assumptions as used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017 actuarially valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
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mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio’s investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	<u>100.00%</u>	

\*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table represents the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$15,198,638	\$10,602,719	\$6,731,347

**Note 6 - Defined Benefit OPEB Plans**

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**Net OPEB Liability**

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB liability represents the employers’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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

Health Care Plan Description - The employer contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% 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 2018, the surcharge obligation was \$30,996.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The contractually required contribution to SERS was \$44,959 for fiscal year 2018.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020.



**Southwest Ohio Council of Governments, Warren County**  
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**For the Fiscal Year Ended June 30, 2018**

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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.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly 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. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**Net OPEB Liability**

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$1,530,578	\$1,741,424	\$3,272,002
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.05703160%	0.04463323%	

**Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% to 18.20%
Investment Rate of Return	7.50% net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56%
Prior Measurement Date	2.92%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.63%
Prior Measurement Date	2.98%
Medical Trend Assumption	
Medicare	5.50% to 5.00%
Pre-Medicare	7.50% to 5.00%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.50%
US Stocks	22.50%	4.75%
Non-US Stocks	22.50%	7.00%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	8.00%
Real Assets	15.00%	5.00%
Multi-Asset Strategies	10.00%	3.00%
Total	100.00%	

**Discount Rate**

The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates**

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease 2.63%	Current Discount Rate 3.63%	1% Increase 4.63%
Proportionate share of the net OPEB liability	\$1,848,368	\$1,530,578	\$1,278,808

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	\$1,241,950	\$1,530,578	\$1,912,583

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

\*10 year annualized geometric nominal returns, which includes the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**Discount Rate**

The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate**

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 4.13%
Proportionate share of the net OPEB liability	\$2,337,834	\$1,741,424	\$1,270,065

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$1,209,867	\$1,741,424	\$2,441,015

**Note 7 - Jointly Governed Organizations**

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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**

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Litigation

The COG is not currently party to legal proceedings.

**Note 9 – Implementation of New Accounting Principles**

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For the fiscal year ended June 30, 2018, the COG has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had no affect on the financial statements.

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Southwest Ohio Council of Governments, Warren County  
Statement of Net Position - Cash Basis  
June 30, 2017

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	<u>Southwest Ohio Council of Governments</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$664,147</u>
Total Assets	<u>664,147</u>
Net Position:	
Unrestricted	<u>664,147</u>
Total Net Position	<u><u>\$664,147</u></u>

See accompanying notes to the basic financial statements.



Southwest Ohio Council of Governments, Warren County  
Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis  
For the Fiscal Year Ended June 30, 2017

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	Southwest Ohio Council of Governments
Operating Receipts:	
Charges for Services	\$8,748,708
Total Operating Receipts	<u>8,748,708</u>
Operating Disbursements:	
Salaries	6,797,081
Fringe Benefits	1,623,412
Purchased Services	220,462
Other Disbursements	<u>119,853</u>
Total Operating Disbursements	<u>8,760,808</u>
Change in Net Position	(12,100)
Net Position - Beginning of Year	<u>676,247</u>
Net Position - End of Year	<u><u>\$664,147</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, 2017

	Southwest Ohio Council of Governments
Cash Flows from Operating Activities:	
Cash Received from Member Districts	\$8,748,708
Cash Payments to Employees	(6,797,081)
Cash Payments to Fringe Benefits	(1,623,412)
Cash Payments to Suppliers	(220,462)
Cash Payments for Other Disbursements	<u>(119,853)</u>
Net Cash Provided (Used) by Operating Activities	<u>(12,100)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,100)
Cash and Cash Equivalents Beginning of Year	<u>676,247</u>
Cash and Cash Equivalents End of Year	<u><u>664,147</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>(12,100)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$12,100)</u></u>

See accompanying notes to the basic financial statements.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 1 - Description of the COG and Reporting Entity**

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**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 jointly governed organization of the Warren County Educational Service Center and the Warren County Commissioners. The COG is currently providing services for eighteen member school districts and other entities in southwest Ohio, 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 five board members. There are three Warren County ESC representatives including the treasurer, and two Warren County Commissioner representatives. The Warren County ESC superintendent is the current board president. The Officer positions of the COG Board are President and Treasurer.

**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**

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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 – cash basis, a statement of receipts, disbursements, and changes in net position – cash basis, and a statement of cash flows – cash basis.

The COG uses a single enterprise presentation for its financial records. Enterprise reporting focuses on

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
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the determination of operating income, changes in net position and financial position.

**Measurement Focus**

The COG uses a cash basis of accounting for reporting purposes. Receipts are recognized when they are received, and disbursements 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 receipts (such as accounts receivable and receipts billed for provided services not yet collected) and certain liabilities (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements 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 financial statements 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 receipts were credited during Fiscal Year 2017.

**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 a disbursement is made for purposes for which both restricted and unrestricted net position are available.

**Operating Receipts and Disbursements**

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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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operating.

**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.

**Note 3 - Deposits and Investments**

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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 five 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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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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.
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, 2017, the carrying amount of all COG deposits was \$664,147. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2017, \$251,616 of the COG's bank balance of \$726,280 was covered by Federal Deposit Insurance. The remaining balance was collateralized by the financial institution's public entity deposit pool in the manner described above.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Investments**

As of June 30, 2017, the COG did not have any investments.

**Note 4 - Risk Management**

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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.

<u>COVERAGE</u>	<u>COMPANY</u>
Educators Legal Liability	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>
Educators Legal Liability	\$1,000,000 each occurrence \$3,000,000 general aggregate	\$2,500 each wrongful act
General Liability	\$1,000,000 each occurrence \$3,000,000 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 three years. There have been no significant reductions in insurance coverage from last year.

**Note 5 - Defined Benefit Pension Plans**

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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
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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 – COG 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.

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 years 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 COG 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 year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.



**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
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The COG's contractually required contribution to SERS was \$249,715 for fiscal year 2017.

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

Plan Description – COG 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).

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 was 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 years 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 increased 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

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
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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.

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, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The COG was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The COG’s contractually required contribution to STRS was \$684,058 for fiscal year 2017.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The COG’s proportion of the net pension liability was based on the COG’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>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,176,026	\$15,276,685	\$18,452,711
Proportion of the Net Pension Liability	0.0433938%	0.04563881%	

**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.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50-18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.

The most recent experience study was for the 5 year period ended June 30, 2015.

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 average 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 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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***Sensitivity of the COG'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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
COG's proportionate share of the net pension liability	\$4,204,860	\$3,176,026	\$2,314,849

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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:

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**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

**Sensitivity of the COG's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the COG'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 COG'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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
COG's proportionate share of the net pension liability	\$20,301,474	\$15,276,685	\$11,037,980

**Note 6 - Post Employment Benefits**

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**School Employees Retirement System of Ohio**

Health Care Plan Description – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A

**Southwest Ohio Council of Governments, Warren County**  
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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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% 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 2017, the minimum compensation level was established at \$23,500. 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's contributions assigned to health care for the years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$7,916, respectively.

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 plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

***State Teachers Retirement System***

**Plan Description** – The COG 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2019. 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.

**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 2017, STRS did not allocate any employer contributions to post-employment health care. The COG's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively.

**Southwest Ohio Council of Governments, Warren County**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 7 - Jointly Governed Organizations**

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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**

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Litigation

The COG is not currently party to legal proceedings.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Southwest Ohio Council of Governments, Warren County, (the COG) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the COG's basic financial statements, and have issued our report thereon dated December 28, 2018, wherein we noted the COG follows the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Furthermore, we noted the COG adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" for fiscal year 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the COG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the COG's internal control. Accordingly, we do not express an opinion on the effectiveness of the COG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

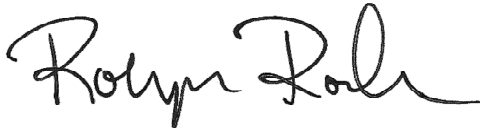


### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Robyn Roush". The signature is fluid and cursive, with the first name "Robyn" and last name "Roush" clearly distinguishable.

Robyn Roush CPA, CITP  
Vice-President/Owner  
Millhuff-Stang, CPA, Inc.  
Chillicothe, Ohio

December 28, 2018

# OHIO AUDITOR OF STATE KEITH FABER



**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  
MARCH 19, 2019**