



Dave Yost • Auditor of State



MIDLAND COUNCIL OF GOVERNMENTS  
WAYNE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Executive Committee:

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

We have audited the accompanying financial statements of the cash balances, receipts and disbursements, and related notes of the Midland Council of Governments, Wayne County, Ohio (the Council) as of and for the years ended June 30, 2017 and 2016.

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

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

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council's internal control. Accordingly, we express no 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.

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

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

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

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

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

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements, and related notes of the Midland Council of Governments, Wayne County as of June 30, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



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

February 20, 2018

**Midland Council of Governments**  
**Wayne County, Ohio**  
Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balance - General Fund  
For the Fiscal Year Ended June 30, 2017

		<u>General Fund</u>
Cash Receipts:		
Intergovernmental	\$	141,952
Charges for Services		4,263,598
Investment Income		5,865
Other Revenue		725
		<hr/>
Total Cash Receipts		4,412,140
		<hr/>
Cash Disbursements:		
Salaries		1,556,616
Employee Benefits		547,758
Purchased Services		985,491
Materials and Supplies		951,376
Distributions to Member Districts		57,327
Other		22,085
Capital Outlay		274,840
Debt Service:		
Redemption of Principal		279,879
Interest and Fiscal Charges		24,912
		<hr/>
Total Cash Disbursements		4,700,284
		<hr/>
Excess of Cash Receipts Under Cash Disbursements		(288,144)
		<hr/>
Other Financing Receipts:		
Refund of Prior Year Disbursements		164,018
		<hr/>
Net Change in Fund Cash Balance		(124,126)
		<hr/>
Fund Cash Balance, July 1, 2016		896,463
		<hr/>
Fund Cash Balance, June 30, 2017:		
Assigned		216,048
Unassigned		556,289
		<hr/>
Total Fund Cash Balance, June 30, 2017	\$	<u><u>772,337</u></u>

See accompanying notes to the financial statements.

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**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

**1 - Summary of Significant Accounting Policies**

***Description of the Entity***

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

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

***Basis of Accounting***

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

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

***Cash***

Investments are included in the cash fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. Automated funds investment sweep accounts are valued at cost.

***Fund Accounting***

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

***General Fund***

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

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

***Budgetary Process***

The Ohio Revised Code does not require the Council to budget annually. However, management prepares a budget for internal monitoring. A summary of 2017 budgetary activity appears in Note 2.

***Property, Plant and Equipment***

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

***Accumulated Leave***

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

***Fund Balance***

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

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

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

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

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

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

***Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2017, the Council has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Council.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Council.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Council.

GASB Statement No. 82 improves consistency in the application of pension accounting. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Council.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

**2 - Budgetary Activity**

Budgetary activity for the years ending June 30, 2017 is as follows:

2017 Budget vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,840,818	\$ 4,576,158	\$ (264,660)

2017 Budget vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 4,956,712	\$ 4,700,284	\$ 256,428

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

The Council maintains a cash and investment pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2017 was as follows:

	2017
Demand Deposits	\$ (81,845)
STAR Ohio	776,495
Automated Funds Investment Sweep	77,612
Petty Cash	75
Total Deposits and Investments	\$ 772,337

The Council had a negative balance in their demand deposits at June 30, 2017 due to the funds being invested in overnight repurchase agreements.

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

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

**Investments:** Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost or amortized cost.

Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days and carries a rating of AAAM by S&P's Global Ratings.

#### **4 - Retirement Systems**

The Council provides retirement benefits to all certificated employees under the State Teachers' Retirement System and to all non-certified employees under the School Employees Retirement System.

##### ***School Employees Retirement System***

The Council also contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. This report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary, and the Council is required to contribute 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. In addition to the salary contributions, the Council pays an additional 14 percent contribution on salaries of employees who are paid below a level established annually by SERS actuaries. This additional contribution is referred to as the "employer surcharge." The Council has paid all contributions required through June 30, 2017.

##### ***State Teachers Retirement System***

The Council contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215- 3771.

Plan members are required to contribute 14 percent of their annual covered salary to fund pension obligations and the Council is required to contribute 14 percent. The fiscal year 2017 contribution rates were equal to the statutory maximum rates. The Council has paid all contributions required through June 30, 2017.

**5 – Postemployment Benefits**

Both STRS and SERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including hospitalization, physicians’ fees, prescription drug coverage, and Medicare Part B premium reimbursements, to qualifying benefit recipients. STRS and SERS did not allocate any contributions to fund these benefits during fiscal year 2017.

**6 - Risk Management**

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

Financial Position – Schools of Ohio Risk Sharing Authority Board’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at June 30, 2016 (the most recent available):

	<u>2016</u>
Assets	\$ 4,057,586
Less Liabilities	<u>(2,528,750)</u>
Net Position	<u>\$ 1,528,836</u>

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

**7 - Contingent Liabilities**

Management believes there are no pending claims or lawsuits.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

**8 - Debt**

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 65,000	\$ 10,464	\$ 75,464
2019	65,000	8,487	73,487
2020	65,000	6,526	71,526
2021	65,000	4,532	69,532
2022	65,000	2,555	67,555
2023	<u>48,751</u>	<u>620</u>	<u>49,371</u>
Total	<u>373,751</u>	<u>33,184</u>	<u>406,935</u>

**9 - Lease Purchase**

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

The Council entered into a Lease-Purchase agreement with Key Government Finance, Inc. on November 1, 2016 in the amount of \$225,000 for the purchase of network equipment.

The following is a schedule of the future minimum lease payments required under the lease and the present value of the minimum lease payments as of June 30, 2017.

<u>Year</u>	<u>Equipment</u>	<u>Network Equipment</u>
2018	\$ 89,406	\$ 104,434
2019	<u>29,802</u>	<u>52,217</u>
Total Minimum Lease Payments	119,208	156,651
Less Amount Representing Interest	<u>2,330</u>	<u>5,540</u>
Present Value of Minimum Lease Payments	<u>\$ 116,878</u>	<u>\$ 151,111</u>

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017

**10 - Fund Balance**

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

The constraints placed on fund balance for the General Fund is presented as follows:

	<u>2017</u>
Assigned for:	
Subsequent Year Appropriations	\$ 216,048
Unassigned	<u>556,289</u>
	<u>\$ 772,337</u>



**Midland Council of Governments**  
**Wayne County, Ohio**  
Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balance - General Fund  
For the Fiscal Year Ended June 30, 2016

	<u>General Fund</u>
Cash Receipts:	
Intergovernmental	\$ 419,926
Charges for Services	4,211,231
Investment Income	3,194
Other Revenue	1,080
	<hr/>
Total Cash Receipts	4,635,431
	<hr/>
Cash Disbursements:	
Salaries	1,750,247
Employee Benefits	588,130
Purchased Services	1,114,984
Materials and Supplies	810,827
Distributions to Member Districts	291,200
Other	68,793
Capital Outlay	247,364
Debt Service:	
Redemption of Principal	146,955
Interest and Fiscal Charges	21,913
	<hr/>
Total Cash Disbursements	5,040,413
	<hr/>
Net Change in Fund Cash Balance	(404,982)
Fund Cash Balance, July 1, 2015	1,301,445
	<hr/>
Fund Cash Balance, June 30, 2016:	
Assigned	316,979
Unassigned	579,484
	<hr/>
Total Fund Cash Balance, June 30, 2016	<u>\$ 896,463</u>

See accompanying notes to the financial statements.

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**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Year Ended June 30, 2016

**1 - Summary of Significant Accounting Policies**

***Description of the Entity***

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

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

***Basis of Accounting***

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

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

***Cash***

Investments are included in the cash fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. Repurchase agreements are valued at cost.

***Fund Accounting***

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

***General Fund***

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

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Year Ended June 30, 2016

***Budgetary Process***

The Ohio Revised Code does not require the Council to budget annually. However, management prepares a budget for internal monitoring. A summary of 2016 budgetary activity appears in Note 2.

***Property, Plant and Equipment***

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

***Accumulated Leave***

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

***Fund Balance***

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

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

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

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

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Year Ended June 30, 2016

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

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

***Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2016, the Council has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Council.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Council.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Council.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Council.

**Midland Council of Governments**  
**Wayne County, Ohio**  
Notes to the Financial Statements  
For the Year Ended June 30, 2016

**2 - Budgetary Activity**

Budgetary activity for the years ending June 30, 2016 is as follows:

2016 Budget vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,448,228	\$ 4,635,431	\$ 187,203

2016 Budget vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 5,038,425	\$ 5,357,392	\$(318,967)

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

The Council maintains a cash and investment pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2016 was as follows:

	2016
Demand Deposits	\$ (36,003)
STAR Ohio	847,391
Repurchase Agreement	85,000
Petty Cash	75
Total Deposits and Investments	\$ 896,463

The Council had a negative balance in their demand deposits at June 30, 2016 due to the funds being invested in overnight repurchase agreements.

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

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

**Investments:** Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost or amortized cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2016.

Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAm by S&P's Global Ratings.

#### **4 – Retirement Systems**

The Council provides retirement benefits to all certificated employees under the State Teachers' Retirement System and to all non-certified employees under the School Employees Retirement System.

##### ***School Employees Retirement System***

The Council also contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. This report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary, and the Council is required to contribute 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. In addition to the salary contributions, the Council pays an additional 14 percent contribution on salaries of employees who are paid below a level established annually by SERS actuaries. This additional contribution is referred to as the "employer surcharge." The Council has paid all contributions required through June 30, 2016.

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***State Teachers Retirement System***

The Council contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215- 3771.

The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The council was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates. The Council has paid all contributions required through June 30, 2016.

**5 – Postemployment Benefits**

Both STRS and SERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including hospitalization, physicians’ fees, prescription drug coverage, and Medicare Part B premium reimbursements, to qualifying benefit recipients. STRS and SERS did not allocate any contributions to fund these benefits during fiscal year 2016.

**6 - Risk Management**

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

Financial Position – Schools of Ohio Risk Sharing Authority Board’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at June 30, 2016 (the most recent available):

	2016
Assets	\$ 4,057,586
Less Liabilities	(2,528,750)
Net Position	\$ 1,528,836



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

**7 - Contingent Liabilities**

Management believes there are no pending claims or lawsuits.

**8 - Debt**

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 65,000	\$ 12,441	\$ 77,441
2018	65,000	10,464	75,464
2019	65,000	8,487	73,487
2020	65,000	6,526	71,526
2021	65,000	4,532	69,532
2022 - 2023	113,751	3,175	116,923
Total	438,751	45,625	484,373

**9 - Lease Purchase**

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

The following is a schedule of the future minimum lease payments required under the lease and the present value of the minimum lease payments as of June 30, 2016.

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Year	Equipment
2017	\$ 119,208
2018	119,208
2019	29,802
Total Minimum Lease Payments	268,218
Less Amount Representing Interest	10,350
Present Value of Minimum Lease Payments	\$ 257,868

**10 - Encumbrance Commitments**

Encumbrances outstanding at fiscal year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the Council's commitment for encumbrances in the general fund was \$316,979.

**11 - Fund Balance**

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

The constraints placed on fund balance for the General Fund is presented as follows:

	2016
Assigned for:	
Encumbrances:	
Purchased Services	\$ 61,509
Materials and Supplies	190,995
Capital Outlay	39,653
Other	24,822
Total Assigned	316,979
Unassigned	579,484
	\$ 896,463

**12 – Subsequent Event**

The Council entered into a Lease-Purchase agreement with Key Government Finance, Inc. on November 1, 2016 in the amount of \$225,000 for the purchase of network equipment.



# Dave Yost • Auditor of State

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

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

To the Executive Committee:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements of the Midland Council of Governments, Wayne County, (the Council) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2018, wherein we noted the Council followed financial reporting provisions Ohio Revised Code Section 117.38 and the Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Council's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

February 20, 2018



# Dave Yost • Auditor of State

**MIDLAND COUNCIL OF GOVERNMENTS**

**WAYNE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 20, 2018**