

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2017



Dave Yost • Auditor of State

Board Members
Mid East Ohio Regional Council
1 Avalon Road
Mt. Vernon, Ohio 43050

We have reviewed the *Independent Auditor's Report* of the Mid East Ohio Regional Council, Knox County, prepared by Julian & Grube, Inc., for the audit period January 1, 2017 through December 31, 2017. 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 Mid East Ohio Regional Council is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2018

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**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Mid East Ohio Regional Council
Knox County
1 Avalon Road
Mt. Vernon, Ohio 43050

To the Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Mid East Ohio Regional 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 Mid East Ohio Regional 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid East Ohio Regional Council, Knox County, Ohio, as of December 31, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liability/net pension asset and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Mid East Ohio Regional 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 Mid East Ohio Regional Council's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 18, 2018

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The management's discussion and analysis of Mid East Ohio Regional Council's (the "Council") financial performance provides an overall review of the Council's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the Council's financial performance. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Council's financial performance.

Financial Highlights

Key financial highlights for the year of 2017 are as follows:

- Net position decreased \$1,446,277 which represents a 7.71% decrease from the year ended December 31, 2016
- The Council's operating revenues total \$6,846,671 for the year ended December 31, 2017. Operating expenses amount to \$5,330,817.

Using the Basic Financial Statements

Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position and a statement of cash flows. Since the Council only uses one fund for its operations, the entity wide and fund presentation information are the same.

The statement of net position and statement of revenues, expenses and changes in net position answers the question, "How did we do financially during 2017?" These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. The statement of net position can be found on page 7 of this report and the statement of activities can be found on page 8 of this report.

The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12 - 28 of this report.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Required Supplementary Information (RSI)

The RSI contains information regarding the Council's proportionate share of the Ohio Public Employees Retirement System's (OPERS) net pension liability/net pension asset and the Council's schedule of contributions to OPERS. The RSI can be found on pages 29 - 31 of this report.

The table below provides a comparative analysis of the Council's net position for the years ended December 31, 2017 and 2016, respectively.

	Net Position	
	2017	2016
<u>Assets</u>		
Current Assets	\$ 18,600,950	\$ 19,665,180
Noncurrent Assets	5,376	3,099
Capital Assets	558,997	574,709
Total Assets	19,165,323	20,242,988
Deferred Outflows of Resources	935,945	762,280
<u>Liabilities</u>		
Current Liabilities	232,452	145,781
Long-Term Liabilities	2,441,823	2,006,495
Total Liabilities	2,674,275	2,152,276
Deferred Inflows of Resources	120,818	100,540
<u>Net Position</u>		
Investment in Capital Assets	558,997	574,709
Unrestricted	16,747,178	18,177,743
Total Net Position	\$ 17,306,175	\$ 18,752,452

During 2015, the Council adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Council's actual financial condition by adding deferred inflows related to pension and the net pension asset/liability to the reported net position and subtracting deferred outflows related to pension.

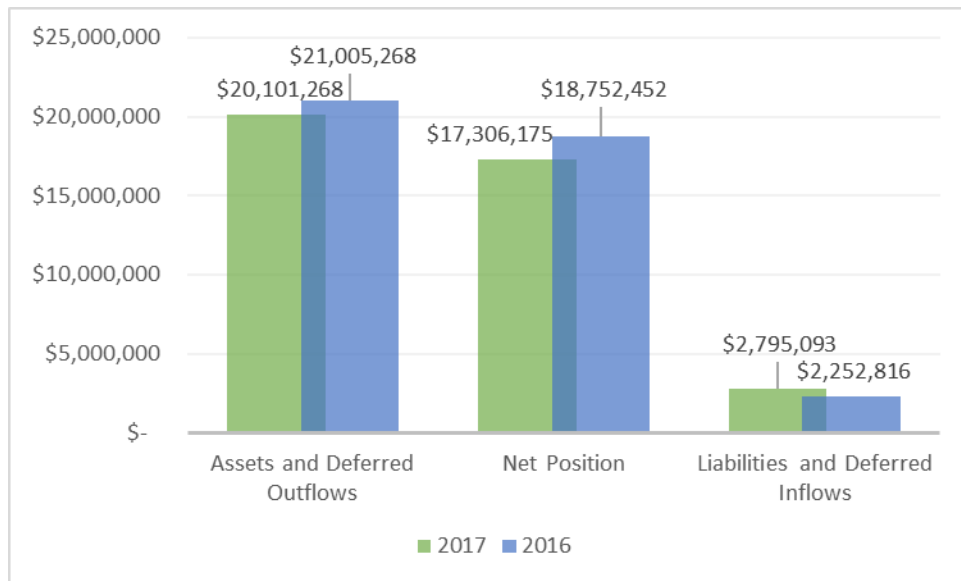
Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the Council's assets exceeded liabilities by \$17,306,175.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The Council has \$558,997 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net position of \$16,747,178 may be used to meet the Council's ongoing activities.

The tables below provide a comparison of the Council's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position for the years ended December 31, 2017 and 2016, respectively.



**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The table below shows a comparison of the change in net position for the years ended December 31, 2017 and December 31, 2016:

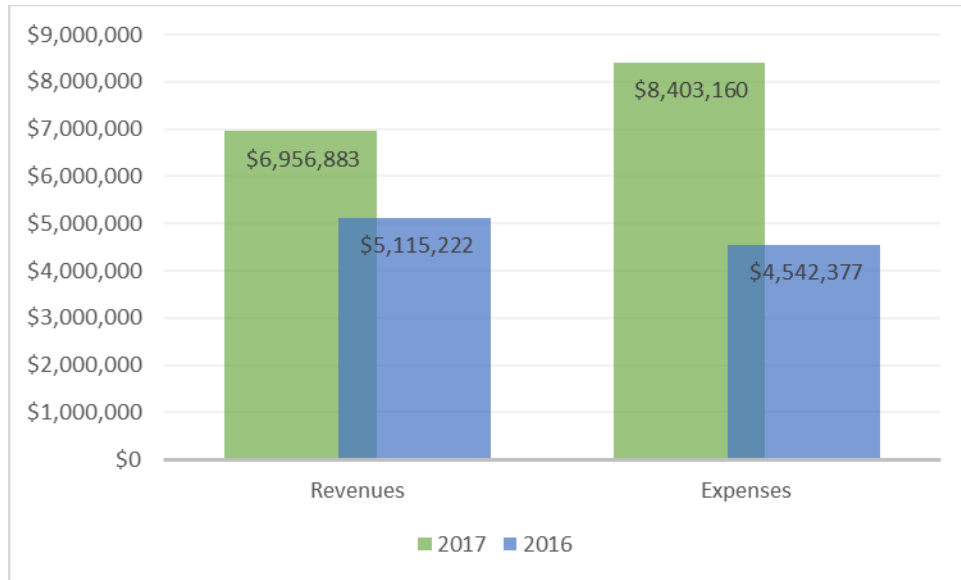
	2017	2016
<u>Revenues</u>		
Operating:		
Intergovernmental - Intermediate	\$ 5,635,718	\$ 3,211,915
Intergovernmental - State	137,555	190,898
Intergovernmental - Federal	777,316	764,605
Miscellaneous	296,082	192,518
Nonoperating:		
Unrealized Gain (Loss) on Investments	(26,010)	(9,437)
Earnings on Investments	136,222	191,878
Total Revenues	6,956,883	4,542,377
<u>Expenses</u>		
Operating:		
Salaries and Benefits	2,417,277	2,196,552
Provider Services	1,026,656	746,665
Rent	55,241	79,797
County Expenses	122,516	69,821
Other Supported Living	349,688	135,742
Room and Board	138,406	161,422
IO Waiver	527,042	574,233
Travel and Training	156,388	180,747
Professional Expense	122,061	175,130
Administrative Overhead	178,390	163,624
Equipment	6,512	11,821
Depreciation	15,711	15,711
Program Expense	175,240	206,371
Program Administration	39,689	221,361
Uncollectible Receivables	-	130,205
Nonoperating:		
Investment Expenses	-	46,020
Special Items:		
Matched Obligation	2,307,343	-
Investment Release	765,000	-
Total Expenses	8,403,160	5,115,222
Change in Net Position	(1,446,277)	(572,845)
Net Position Beginning of Year	18,752,452	19,325,297
Net Position End of Year	\$ 17,306,175	\$ 18,752,452

The Council's net position decreased by \$1,446,277. Expenses of \$8,403,160 exceeded revenues of \$6,956,883. The graphs below compare the Council's activities revenue and expenses for the years ended December 31, 2017 and December 31, 2016.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Revenues and Expenses December 31, 2017 and December 31, 2016



Budgeting Highlights

Although the Council is not required to prepare a budget per Ohio law, an annual budget is completed for management purposes. Budget information is reported to the Council members.

Capital Assets

As of December 31, 2017, the Council had \$558,997 invested in capital assets, net of accumulated depreciation. This amount consisted of \$537,137 of net depreciable capital assets and \$21,860 of land, which were reported on the statement of net position. The following table shows December 31, 2017 balances compared to 2016:

	<u>12/31/17</u>	<u>12/31/16</u>
Land	\$ 21,860	\$ 21,860
Building	432,069	443,368
Building Improvements	100,759	103,318
Furniture and Equipment	<u>4,309</u>	<u>6,163</u>
Total	<u>\$ 558,997</u>	<u>\$ 574,709</u>

The overall decrease in capital assets of \$15,712 is due to current year depreciation expense.

See Note 5 to the basic financial statements for additional information on the Council's capital assets.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Current Financial Related Activities

During calendar year 2017, the Council's administration budgetary process continued to consist of a central agency-wide budget segmented with four departments. Department budgets were monitored through monthly reports to each responsible Director who used the data to review expenses and revenues. The MEORC Board also received reports of the budget to actual status of revenue and expenditures.

The 2017 year involved final accomplishments of the 2015-2017 strategic plan objectives while also developing the 2018-2020 strategic plan with new objectives of #1: Increase profit margin; #2: Exceed customer expectations; #3: Design, manage and improve products for customers and #4: Lead in human, information and organizational capital. The Council reports to the Board, at least quarterly, the status and accomplishments towards the strategic objectives.

The 2015-2017 financial goal #4 continued to focus on stabilizing and building the fund balance, improving cost-effectiveness of key services, ongoing monitoring of departmental budgets and procuring alternative and out of the region funding opportunities. The current fiscal position of the Council remains healthy; however, being mindful of the current environment impacting all governmental entities, the Council and their Board of Directors implemented a 2-year budget and product cycle that included a change in the business model that aligned with the strategic plan goals and objectives to refine the Council's product offering, structure and business model.

As explained in 2016, the Council continued in 2017 to see an overall decrease in the financial position due to member county boards utilizing funds held at MEORC with no additional revenue offsetting the county expenditures along with the requirement in 2015 to record OPERS fund projected liabilities. This scenario is expected to continue while the administrative portion of the Council's operations continues to remain stable with the Council's focus to implement and fund business venture type efforts through the innovation center and grant opportunities.

In 2018, keeping a continuous pulse on the rapid changes and challenges in the developmental disabilities field, the Council will focus on developing new innovative products, building additional partnerships, and expanding in other service areas such as needs for housing, employment services, guardianship and grant implementation.

Contacting the Council's Financial Management

This financial report is designed to provide our Council members with a general overview of the Council's finances and show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Cathy Henthorn, Director of Financial Operations, Mid East Ohio Regional Council, 1 Avalon Road, Mount Vernon, Ohio 43050. You may call her at (740) 397-4733 ext. #102.

**BASIC
FINANCIAL STATEMENTS**

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2017

Assets:	
Equity in cash and cash equivalents.	\$ 2,324,053
Receivables:	
Due from other governments	410,183
Other miscellaneous	1,334
Prepayments	32,076
Investments.	<u>15,833,304</u>
Total current assets	<u>18,600,950</u>
 <u>Noncurrent assets:</u>	
Net pension asset (Note 8)	5,376
Land	21,860
Depreciable capital assets, net	<u>537,137</u>
Total assets	<u>19,165,323</u>
 Deferred outflows of resources:	
Pension (Note 8)	<u>935,945</u>
 Liabilities:	
<u>Current liabilities:</u>	
Accounts payable.	137,675
Accrued payroll and benefits	<u>94,777</u>
Total current liabilities	<u>232,452</u>
 <u>Long-term liabilities:</u>	
Net pension liability (Note 8)	<u>2,441,823</u>
Total liabilities	<u>2,674,275</u>
 Deferred inflows of resources:	
Pension (Note 8)	<u>120,818</u>
 Net position:	
Investment in capital assets	558,997
Unrestricted.	<u>16,747,178</u>
Total net position	<u>\$ 17,306,175</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating revenues:	
Intergovernmental - Intermediate	\$ 5,635,718
Intergovernmental - State.	137,555
Intergovernmental - Federal	777,316
Miscellaneous.	<u>296,082</u>
Total operating revenues	<u>6,846,671</u>
Operating expenses:	
Salaries and benefits	2,417,277
Provider services.	1,026,656
Rent	55,241
County expense.	122,516
Other supported living.	349,688
Room and board	138,406
IO waiver	527,042
Travel and training	156,388
Professional expense	122,061
Administrative overhead	178,390
Equipment	6,512
Depreciation	15,711
Program expense	175,240
Program administration	<u>39,689</u>
Total operating expenses.	<u>5,330,817</u>
Operating Income	<u>1,515,854</u>
Non-operating revenues (expenses):	
Investment earnings.	136,222
Unrealized gain (loss).	<u>(26,010)</u>
Total non-operating revenues (expenses).	<u>110,212</u>
Special item - matched obligation	(2,307,343)
Special item - investment release	<u>(765,000)</u>
Total special items.	<u>(3,072,343)</u>
Change in net position	(1,446,277)
Net position at beginning of year	<u>18,752,452</u>
Net position at end of year	<u>\$ 17,306,175</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:	
Cash received from other governments	\$ 6,592,546
Cash received from other operations	294,748
Cash payments to employees for services	(2,099,459)
Cash payments to other suppliers of goods or services	(2,700,073)
	<hr/>
Net cash provided by (used in) operating activities	2,087,762
Cash flows from investing activities:	
Interest received	136,222
Investment purchases	(1,421,379)
	<hr/>
Net cash (used in) investing activities	(1,285,157)
Cash flows from non-capital activities:	
Special items	(3,072,343)
	<hr/>
Net cash (used in) non-capital activities	(3,072,343)
Net decrease in cash and cash equivalents	(2,269,738)
Cash and cash equivalents at beginning of year . . .	4,593,791
Cash and cash equivalents at end of year	\$ 2,324,053
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by (used in) operating activities:	
Operating income	\$ 1,515,854
Adjustments:	
Depreciation	15,711
Changes in assets and liabilities:	
Decrease in due from other governments.	41,957
(Increase) in other miscellaneous receivable	(1,334)
Decrease in prepayments.	149,239
(Increase) in deferred outflows of resources	(173,665)
(Increase) in net pension asset	(2,277)
Increase in deferred inflows of resources	20,278
Increase in net pension liability.	435,328
Increase in accrued payroll and benefits.	38,154
Increase in accounts payables.	48,517
	<hr/>
Net cash provided by (used in) operating activities	\$ 2,087,762
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 - DESCRIPTION OF THE COUNCIL

Mid East Ohio Regional Council (the "Council") is a council of governments created under the authority of Chapter 167 of the Ohio Revised Code. Eighteen county Boards of Developmental Disabilities are participants in an agreement that creates and governs the Council. The Council may not exceed the scope of the authority possessed by its member organizations.

Management believes the basic financial statements included in this report represent all of the activities of the Council over which it has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council's significant accounting policies are described below.

A. Reporting Entity

The Council's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34." The financial statements include all operations for which the Council is financially accountable. Financial accountability, as defined by the GASB, exists if the Council appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Council. The Council may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the Council. The Council also took into consideration other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's basic financial statements to be misleading or incomplete. The Council has no component units. On this basis, no governmental organizations other than the Council itself are included in the financial reporting entity.

B. Fund Accounting

The Council uses a single fund to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Council activities or functions.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

A proprietary fund is used to account for the Council's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds. The Council does not have internal service funds.

Enterprise Funds - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Council's only enterprise fund is the following:

Operations Fund - This fund accounts for the operation and administration of services provided by the Council's departments including business, quality, investigative services and administrative overhead.

C. Basis of Presentation and Measurement Focus

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

The Council uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

For financial statement presentation purposes, the Council utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its proprietary activities.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Council, deferred outflows of resources have been reported for the following items related to the Council's net pension asset/liability: (1) the net difference between projected and actual investment earnings on pension plan assets and (2) the Council's contributions to the pension systems subsequent to the measurement date. The deferred outflows of resources related to pension are further explained in Note 8.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Council reported deferred inflows of resources for (1) the difference between expected and actual experience and (2) the difference between employer's contributions and the employer's proportional share of contributions. These deferred inflows of resources related to pension is further explained in Note 8.

E. Cash and Cash Equivalents

Cash received by the Council is presented as "equity in cash and cash equivalents" on the statement of net position.

During 2017, the Council invested in STAR Ohio. 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Council measures its investment in STAR Ohio 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 a NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Council also has invested funds with PNC Capital Markets. These investments consist of Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Mortgage Corporation Bonds, and Federal Farm Credit Bonds, and are stated at fair value. PNC is registered with the SEC as a broker-dealer and investment advisor.

Interest earned during the year from STAR Ohio and PNC was \$136,222.

For presentation on the statement of net position and statement of cash flows, investments with original maturities of three months or less at the time they are purchased by the Council are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Council's investment accounts at year end is provided in Note 3.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Prepayments

Prepayments represent expenses which have been paid, but not yet incurred under GAAP. These items are reported as an asset on the statement of net position.

G. Capital Assets

Capital assets utilized by the Council are reported on the statement of net position.

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Council implemented a capitalization threshold of \$5,000 as of January 1, 2008. Donated capital assets are recorded at their acquisition value.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Furniture and Equipment	7 Years
Building and Improvements	40 Years

H. Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. Net position investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Council has no restricted net position.

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

I. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. During 2017, the Council matched \$2,307,343 in waiver obligations to Knox County Board of Development Disabilities and released \$765,000 of investment funds to Tuscarawas County Board of Development Disabilities. The transactions have been recorded as special items on the statement of revenues, expenses, and change in net position.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Budgetary Process

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council does pass an annual budget for the fiscal year. Modifications to the budget are approved by the Board when necessary.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Council. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Council. All revenues and expenses not meeting these definitions are reported as nonoperating.

M. Pensions

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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

There are no legal restrictions on the Council's investments or deposits. However, the Council has adopted as their investment policy the legal restrictions imposed by the Ohio Revised Code on certain political subdivisions. This policy requires the classification of monies held by the Council 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 Council 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 the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies 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 Council's deposits are 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 treasurer 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

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 or 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 market 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 market 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-loan money market mutual fund consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasury Asset Reserve of Ohio (STAR Ohio).

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 Council, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2017, the carrying amount of the Council's deposits was \$2,171,891. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, \$581,018 of the Council's bank balance of \$2,286,260 was exposed to custodial risk as discussed below, while \$1,703,234 of the Council's bank balance was covered by the Federal Deposit Insurance Corporation and \$2,008 was covered by the National Credit Union Share Insurance Fund.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in the possession of an outside party. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Council to a successful claim by the FDIC. The Council has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by: (a) eligible securities pledged to the Council and deposited with a qualified trustee by the financial institution as security for payment whose market value at all times shall be at least 105 percent of the deposits being secured; or (b) 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 percent of the deposits being secured or a rate set by the Treasurer of State.

B. Investments

As of December 31, 2017, the Council had the following investments and maturities:

<u>Measurement/Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturities</u>	
		<u>3 months or less</u>	<u>Greater than 3 months</u>
Fair Value:			
PNC	\$ 15,833,304	\$ -	\$ 15,833,304
Amortized Cost:			
STAR Ohio	<u>152,162</u>	<u>152,162</u>	<u>-</u>
Total	<u>\$ 15,985,466</u>	<u>\$ 152,162</u>	<u>\$ 15,833,304</u>

During the current period, the Council invested in Federal Home Loan Bank bonds, Federal Nation Mortgage Association bonds, Federal Home Loan Mortgage Corporation Bonds and Federal Farm Credit Bonds. During the year ended December 31, 2017, investments from all sources earned \$136,222 in interest and decreased in value by \$26,010.

Fair Value Measurements: The Council categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Council's investments in federal agency securities with PNC (FFCB, FHLB, FHLMC, FNMA) are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Council's investment policy limits investment portfolio maturities to five years or less.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Standard & Poor's has assigned PNC's federal securities an A- credit rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Council's investment policy does not specifically address credit risk beyond requiring the Council to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency security are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Council's name. The Council has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

While the value of any investment may lose value, a mechanism is set up to protect the Council from losing its investments in the instance that the counterparty fails. The Securities Investor Protection

Corporation will cover up to \$500,000 (including up to \$100,000 for "cash") in the event that an investment firm collapses. In addition, a portion of the Council's investments in excess of the SIPC coverage are also insured through an additional insurance plan through the investment broker. Of the \$15,985,466 the Council has invested, \$15,833,304 is insured by the SIPC and \$152,162 is covered by additional insurance.

Concentration of Credit Risk: The Council places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Council at December 31, 2017:

Measurement/Investment Type	Measurement Value	% of Total
Fair Value:		
PNC	\$ 15,833,304	99.04%
Amortized Cost:		
STAR Ohio	152,162	0.95%
Total	\$ 15,985,466	100.00%

NOTE 4 - RECEIVABLES

Receivables at December 31, 2017 consisted of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net position follows:

Due From Other Governments	\$ 410,183
Other Miscellaneous	1,334
Total	\$ 411,517

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 5 - CAPITAL ASSETS

A summary of the changes in the capital assets during the year follows:

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 26,558	\$ -	\$ -	\$ 26,558
Building	502,163	-	-	502,163
Building Improvements	113,697	-	-	113,697
Land	21,860	-	-	21,860
Less: Accumulated Depreciation	(89,570)	(15,711)	-	(105,281)
Capital Assets, Net	<u>\$ 574,708</u>	<u>\$ (15,711)</u>	<u>\$ -</u>	<u>\$ 558,997</u>

NOTE 6 - RISK MANAGEMENT

A. Comprehensive

The Council is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended December 31, 2017, the Council retained property insurance and liability coverage.

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

B. Employee Dishonesty Bonds

The Council carries employee dishonesty bonds for the employees and Board Members in the amount of \$300,000.

NOTE 7 - CONTINGENCIES

A. Grants

The Council receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the basic financial statements of the individual fund types included herein or on the overall financial position of the Council at December 31, 2017.

B. Litigation

The Council is not party to any legal proceeding.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the Council's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/asset 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.

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

GASB 68 assumes any net pension 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.

The proportionate share of each plan's unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued payroll and benefits* on the accrual basis of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - Council employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Council employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 2.25%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 2.25% COLA adjustment on the defined benefit portion of their benefit.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from

the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections.

Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0 %
Total Employer	14.0 %
 Employee	 10.0 %

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Council's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$178,908 for 2017. Of this amount, \$12,746 is reported as *accrued payroll and benefits*.

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

The net pension liability and net pension asset for the OPERS Traditional Pension Plan, Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2016, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. The Council's proportion of the net pension liability or asset was based on the Council's 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:

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

	OPERS - Traditional	OPERS - Combined	OPERS - Member- Directed	Total
Proportion of the net pension liability/asset prior measurement date	0.01158400%	0.00627000%	0.01250700%	
Proportion of the net pension liability/asset current measurement date	<u>0.01075300%</u>	<u>0.00963400%</u>	<u>0.00331000%</u>	
Change in proportionate share	<u>(0.00083100)%</u>	<u>0.00336400%</u>	<u>(0.00919700)%</u>	
Proportionate share of the net pension liability	\$ 2,441,823	\$ -	\$ -	\$ 2,441,823
Proportionate share of the net pension asset	-	5,362	14	5,376
Pension expense	454,681	3,874	17	458,572

At December 31, 2017, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS - Traditional	OPERS - Combined	OPERS - Member- Directed	Total
Deferred outflows of resources				
Differences between expected and actual experience	\$ 3,310	\$ -	\$ 141	\$ 3,451
Net difference between projected and actual earnings on pension plan investments	363,643	1,306	12	364,961
Changes of assumptions	387,303	1,307	15	388,625
Council contributions subsequent to the measurement date	173,604	5,304	-	178,908
Total deferred outflows of resources	<u>\$ 927,860</u>	<u>\$ 7,917</u>	<u>\$ 168</u>	<u>\$ 935,945</u>
Deferred inflows of resources				
Differences between expected and actual experience	\$ 14,531	\$ 2,741	\$ -	\$ 17,272
Changes in employer's proportionate percentage/difference between employer contributions and proportionate share of contributions	103,546	-	-	103,546
Total deferred inflows of resources	<u>\$ 118,077</u>	<u>\$ 2,741</u>	<u>\$ -</u>	<u>\$ 120,818</u>

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

\$178,908 reported as deferred outflows of resources related to pension resulting from Council contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS - Traditional	OPERS - Combined	OPERS - Member- Directed	Total
2018	\$ 243,272	\$ 255	\$ 24	\$ 243,551
2019	277,225	253	23	277,501
2020	126,343	196	23	126,562
2021	(10,659)	(266)	22	(10,903)
2022	(2)	(217)	20	(199)
Thereafter	-	(349)	56	(293)
Total	\$ 636,179	\$ (128)	\$ 168	\$ 636,219

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification 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. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, for the defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Wage inflation	3.25%
Future salary increases, including inflation COLA or ad hoc COLA	3.25% to 10.75% including wage inflation Pre 1/7/2013 retirees: 3.00%, simple Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple
Investment rate of return	7.50%
Actuarial cost method	Individual entry age

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional

Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	23.00 %	2.75 %
Domestic equities	20.70	6.34
Real estate	10.00	4.75
Private equity	10.00	8.97
International equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Discount Rate - The discount rate used to measure the total pension liability/asset was 7.50%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. A discount rate of 8.00% was used in the previous measurement period. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Council's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Council's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 7.50%, as well as what the Council's proportionate share of the net pension liability/asset 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%)
Council's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 3,730,431	\$ 2,441,823	\$ 1,367,997
Combined Plan	385	(5,362)	(9,827)
Member-Directed Plan	33	(14)	(33)

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System

Plan Description - OPERS administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 9 - POSTRETIREMENT BENEFIT PLAN - (Continued)

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2017, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2017 was 1.00%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The Council's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2017, 2016, and 2015 were \$13,762, \$28,963, and \$29,197, respectively; 93.38% has been contributed for 2017 and 100% has been contributed for 2016 and 2015. The remaining 2017 post-employment health care benefits liability has been reported as *accrued payroll and benefits* on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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REQUIRED SUPPLEMENTARY INFORMATION

MID EAST OHIO REGIONAL COUNCIL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE COUNCIL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST FOUR YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>				
Council's proportion of the net pension liability	0.010753%	0.011584%	0.012280%	0.012280%
Council's proportionate share of the net pension liability	\$ 2,441,823	\$ 2,006,495	\$ 1,481,105	\$ 1,447,652
Council's covered payroll	\$ 1,371,992	\$ 1,437,042	\$ 1,494,600	\$ 1,442,823
Council's proportionate share of the net pension liability as a percentage of its covered payroll	177.98%	139.63%	99.10%	100.33%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%
<i>Combined Plan:</i>				
Council's proportion of the net pension asset	0.009634%	0.006270%	0.015184%	0.015184%
Council's proportionate share of the net pension asset	\$ 5,362	\$ 3,051	\$ 5,846	\$ 1,593
Council's covered payroll	\$ 37,500	\$ 22,825	\$ 55,500	\$ 41,938
Council's proportionate share of the net pension asset as a percentage of its covered payroll	14.30%	13.37%	10.53%	3.80%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>				
Council's proportion of the net pension asset	0.003310%	0.012507%		
Council's proportionate share of the net pension asset	\$ 14	\$ 48		
Council's covered payroll	\$ 17,189	\$ 69,658		
Council's proportionate share of the net pension asset as a percentage of its covered payroll	0.08%	0.07%		
Plan fiduciary net position as a percentage of the total pension asset	103.40%	103.91%		

(1) Information prior to 2014 was unavailable for the Traditional Plan and Combined Plan.

Information prior to 2016 was unavailable for the Member Directed Plan.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the Council's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

MID EAST OHIO REGIONAL COUNCIL

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF COUNCIL CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST FIVE YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>					
Contractually required contribution	\$ 173,604	\$ 164,639	\$ 172,445	\$ 179,352	\$ 187,567
Contributions in relation to the contractually required contribution	<u>(173,604)</u>	<u>(164,639)</u>	<u>(172,445)</u>	<u>(179,352)</u>	<u>(187,567)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 1,335,415	\$ 1,371,992	\$ 1,437,042	\$ 1,494,600	\$ 1,442,823
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>					
Contractually required contribution	\$ 5,304	\$ 4,500	\$ 2,739	\$ 6,660	\$ 5,452
Contributions in relation to the contractually required contribution	<u>(5,304)</u>	<u>(4,500)</u>	<u>(2,739)</u>	<u>(6,660)</u>	<u>(5,452)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 40,800	\$ 37,500	\$ 22,825	\$ 55,500	\$ 41,938
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>					
Contractually required contribution	\$ -	\$ 1,633	\$ 8,359		
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(1,633)</u>	<u>(8,359)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Council's covered payroll	\$ -	\$ 13,608	\$ 69,658		
Contributions as a percentage of covered payroll	10.00%	12.00%	12.00%		

- (1) Information prior to 2013 was unavailable for the Traditional Plan and Combined Plan.
Information prior to 2015 was unavailable for the Member Directed Plan.
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

MID EAST OHIO REGIONAL COUNCIL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%.



Julian & Grube, Inc.
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**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required by *Government Auditing Standards***

Mid East Ohio Regional Council
Knox County
1 Avalon Road
Mt. Vernon, Ohio 43050

To the Members of the Board:

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 Mid East Ohio Regional Council, Knox County, Ohio, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Mid East Ohio Regional Council's basic financial statements and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Mid East Ohio Regional Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Mid East Ohio Regional 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 Mid East Ohio Regional 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.

Members of the Board
Mid East Ohio Regional Council

Compliance and Other Matters

As part of reasonably assuring whether the Mid East Ohio Regional 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 Mid East Ohio Regional Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Mid East Ohio Regional Council's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
June 18, 2018



Dave Yost • Auditor of State

MID EAST OHIO REGIONAL COUNCIL

KNOX 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
AUGUST 28, 2018**