

MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY, OHIO

Basic Financial Statements
(Audited)

For the Year Ended
December 31, 2019



88 East Broad Street
Columbus, Ohio 43215
IPARReport@ohioauditor.gov
(800) 282-0370

Board Members
Mid East Ohio Regional Council
1 Avalon Road
Mount 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, 2019 through December 31, 2019. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

September 10, 2020

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

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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, 2019, 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 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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 10 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Mid East Ohio Regional Council. We did not modify our opinion regarding this matter.

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 and other post-employment benefit assets and liabilities and pension and other post-employment benefit 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 July 16, 2020, 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.
July 16, 2020

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**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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, 2019. 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 2019 are as follows:

- Net position decreased \$1,804,463 which represents a 9.78% decrease from the year ended December 31, 2018.
- The Council's operating revenues total \$5,984,801 for the year ended December 31, 2019. Operating expenses amount to \$8,847,634.

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 2019?" 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 10 of this report and the statement of revenues, expenses, and changes in net position can be found on page 11 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 12 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 13 – 36 of this report.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

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 and Other Postemployment Benefits (OPEB). The RSI can be found on pages 37 - 41 of this report.

The table below provides a comparative analysis of the Council's net position for the years ended December 31, 2019 and 2018, respectively.

	Net Position	
	2019	2018
<u>Assets</u>		
Current Assets	\$ 19,651,392	\$ 21,065,339
Noncurrent Assets	10,119	13,562
Capital Assets	538,834	553,292
Total Assets	20,200,345	21,632,193
Deferred Outflows of Resources	981,655	544,634
<u>Liabilities</u>		
Current Liabilities	153,169	333,324
Long-Term Liabilities	4,327,915	2,863,375
Total Liabilities	4,481,084	3,196,699
Deferred Inflows of Resources	61,614	536,363
<u>Net Position</u>		
Investment in Capital Assets	538,834	553,292
Unrestricted	16,100,468	17,890,473
Total Net Position	\$ 16,639,302	\$ 18,443,765

The net pension liability (NPL) is the largest single liability reported by the Council at December 31, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2019, the Council adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Council's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Council is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Council's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Council is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

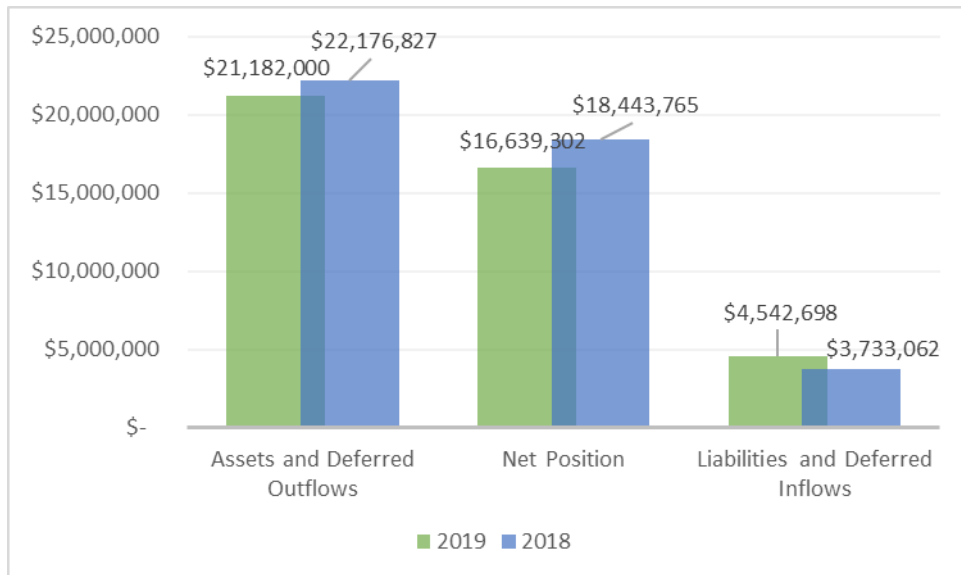
**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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, 2019, the Council's assets exceeded liabilities by \$16,639,302.

The Council has \$538,834 invested in capital assets, which is unavailable for expending. The remaining balance of unrestricted net position of \$16,100,468 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, 2019 and 2018, respectively.



**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

The table below shows a comparison of the change in net position for the years ended December 31, 2019 and December 31, 2018:

	2019	2018
<u>Revenues</u>		
Operating:		
Intergovernmental - Intermediate	\$ 5,491,157	\$ 8,349,934
Intergovernmental - State	83,776	102,518
Intergovernmental - Federal	766,413	726,796
Miscellaneous	208,181	148,187
Nonoperating:		
Unrealized Gain (Loss) on Investments	362,599	58,806
Earnings on Investments	131,045	188,252
Total Revenues	<u>7,043,171</u>	<u>9,574,493</u>
<u>Expenses</u>		
Operating:		
Salaries and Benefits	2,645,297	2,363,263
Provider Services	608,570	716,382
Rent	54,287	58,223
County Expenses	39,898	271,781
Other Supported Living	540,219	619,819
Room and Board	193,647	146,697
Travel and Training	160,379	143,274
Professional Expense	81,612	104,187
Administrative Overhead	167,177	166,108
Equipment	14,412	7,224
Depreciation	14,458	15,205
Program Expense	21,205	104,868
Program Administration	525	1,025
Special Items:		
Matched Obligation	2,193,606	2,180,440
Investment Release	2,112,342	500,000
Total Expenses	<u>8,847,634</u>	<u>7,398,496</u>
Change in Net Position	<u>(1,804,463)</u>	<u>2,175,997</u>
Net Position Beginning of Year (restated)	18,443,765	16,267,768
Net Position End of Year	<u>\$ 16,639,302</u>	<u>\$ 18,443,765</u>

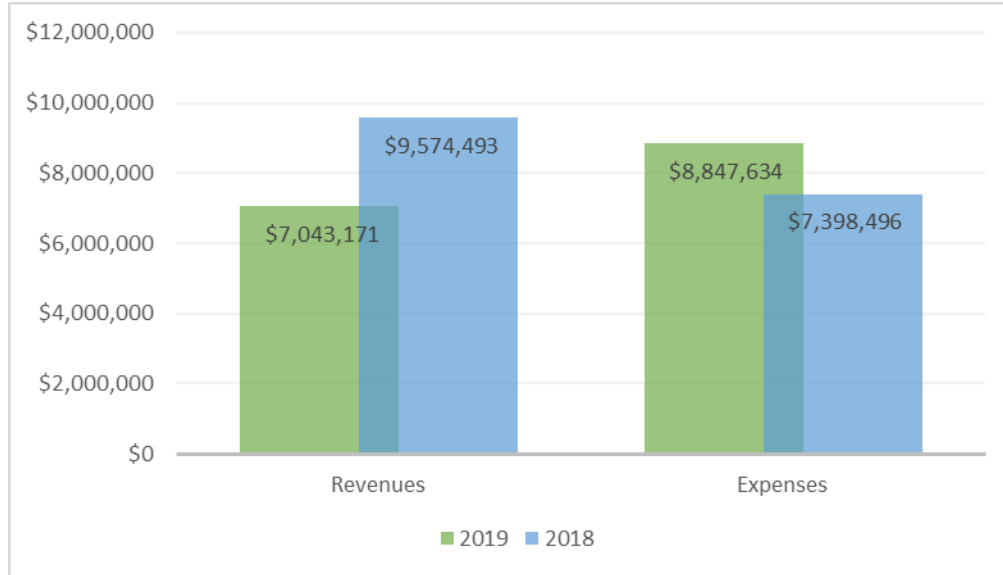
The Council's net position decreased by \$1,804,463.

Expenses of \$8,847,634 exceeded revenues of \$7,043,171. The graphs below compare the Council's activities revenue and expenses for the years ended December 31, 2019 and December 31, 2018.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Revenues and Expenses December 31, 2019 and December 31, 2018



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, 2019, the Council had \$538,834 invested in capital assets, net of accumulated depreciation. This amount consisted of \$516,974 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, 2019 balances compared to 2018:

	<u>12/31/19</u>	<u>12/31/18</u>
Land	\$ 21,860	\$ 21,860
Building	409,472	420,770
Building Improvements	104,846	107,642
Furniture and Equipment	<u>2,656</u>	<u>3,020</u>
Total	<u>\$ 538,834</u>	<u>\$ 553,292</u>

The overall decrease in capital assets of \$14,458 is the net of 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, 2019**

Current Financial Related Activities

During calendar year 2019, 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 year 2019 continued the implementation of the 2018-2020 strategic plan with 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 the status and accomplishments towards the strategic objective targets to the Board throughout the year.

The current fiscal position of the Council remains healthy; however, being mindful of the current environment impacting all governmental entities, in 2017 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 a redesigned business model to reflect the changing needs of our customers. 2019 successfully implemented the second 2-year budget cycle for the Council.

In 2020, keeping a continuous pulse on the rapid changes and challenges in the developmental disabilities field as well as overall economic indicators, 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, provider supports 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, Executive Director, Mid East Ohio Regional Council, 1 Avalon Road, Mount Vernon, Ohio 43050. You may call her at (740) 397-4733.

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**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET POSITION
DECEMBER 31, 2019

Assets:	
<u>Current assets:</u>	
Equity in cash and cash equivalents	\$ 784,379
Receivables:	
Due from other governments	365,969
Other miscellaneous	7,171
Prepayments	22,474
Investments.	18,495,808
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Total current assets	19,675,801
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<u>Noncurrent assets:</u>	
Net pension asset (Note 8)	10,119
Land	21,860
Depreciable capital assets, net	516,974
	<hr/>
Total assets	20,224,754
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Deferred outflows of resources:	
Pension (Note 8)	872,518
OPEB (Note 9)	109,137
	<hr/>
Total Deferred outflows of resources	981,655
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Liabilities:	
<u>Current liabilities:</u>	
Accounts payable	34,817
Accrued payroll and benefits	118,352
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Total current liabilities	153,169
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<u>Long-term liabilities:</u>	
Net pension liability (Note 8)	2,974,608
Net OPEB liability (Note 9)	1,353,307
	<hr/>
Total Long-term liabilities	4,327,915
	<hr/>
Total liabilities	4,481,084
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Deferred inflows of resources:	
Pension (Note 8)	46,115
OPEB (Note 9)	15,499
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Total Deferred inflows of resources	61,614
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Net position:	
Investment in capital assets	538,834
Unrestricted.	16,124,877
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Total net position	\$ 16,663,711
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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, 2019

Operating revenues:	
Intergovernmental - Intermediate	\$ 5,491,157
Intergovernmental - State.	83,776
Intergovernmental - Federal	790,822
Miscellaneous.	<u>208,181</u>
Total operating revenues	<u>6,573,936</u>
Operating expenses:	
Salaries and benefits	2,645,297
Provider services.	608,570
Rent	54,287
County expense.	39,898
Other supported living.	540,219
Room and board	193,647
Travel and training	160,379
Professional expense	81,612
Administrative overhead	167,177
Equipment	14,412
Depreciation	14,458
Program expense	21,205
Program administration	<u>525</u>
Total operating expenses.	<u>4,541,686</u>
Operating Income	<u>2,032,250</u>
Non-operating revenues (expenses):	
Investment earnings.	362,599
Unrealized gain (loss)	<u>131,045</u>
Total non-operating revenues (expenses).	<u>493,644</u>
Special item - matched obligation	(2,193,606)
Special item - investment release	<u>(2,112,342)</u>
Total special items.	<u>(4,305,948)</u>
Change in net position	(1,780,054)
Net position at beginning of year	<u>18,443,765</u>
Net position at end of year	<u>\$ 16,663,711</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:	
Cash received from other governments	\$ 6,208,237
Cash received from other operations	224,957
Cash payments to employees for services	(2,087,367)
Cash payments to other suppliers of goods or services	(2,069,959)
	<hr/>
Net cash provided by operating activities	2,275,868
Cash flows from investing activities:	
Interest received	362,599
Investments sold	1,661,864
	<hr/>
Net cash provided by investing activities	2,024,463
Cash flows from non-capital activities:	
Special items	(4,305,948)
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Net cash (used in) non-capital activities	(4,305,948)
Net decrease in cash and cash equivalents	(5,617)
Cash and cash equivalents at beginning of year . . .	789,996
Cash and cash equivalents at end of year	\$ 784,379
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,032,250
Adjustments:	
Depreciation	14,458
Changes in assets and liabilities:	
(Increase) in due from other governments.	(157,518)
Decrease in other miscellaneous receivable	16,776
(Increase) in prepayments.	(6,156)
(Increase) in deferred outflows of resources-pension	(417,086)
(Increase) in deferred outflows of resources-OPEB	(19,935)
Decrease in net pension asset	3,443
(Decrease) in deferred inflows of resources-pension.	(405,147)
(Decrease) in deferred inflows of resources-OPEB.	(69,602)
Increase in net pension liability.	1,253,628
Increase in net OPEB liability.	210,912
Increase in accrued payroll and benefits.	1,717
(Decrease) in accounts payables.	(181,872)
	<hr/>
Net cash provided by (used in) operating activities	\$ 2,275,868
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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, 2019

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. Nineteen 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.

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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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, project management, 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.

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) until then. The deferred outflows of resources related to pension/OPEB are further explained in Notes 8 and 9.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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. These deferred inflows of resources related to pension/OPEB are further explained in Notes 8 and 9.

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 2019, 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 2019, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 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, Federal Farm Credit Bonds and Money Market Funds, 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 \$362,599.

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.

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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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 2019, the Council matched \$2,193,606 in waiver obligations to Knox and Coshocton County Boards of Development Disabilities and released \$2,112,342 of investment funds to Tuscarawas and Muskingum County Boards of Development Disabilities. The transactions have been recorded as special items on the statement of revenues, expenses, and change in net position.

K. Budgetary Process

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

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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/Other Postemployment Benefits (OPEB)

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

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported on the statement of net position. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the fund. Net pension/OPEB liability is recognized in the statement of net position to the extent that benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits.

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, 2019

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, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasury Asset Reserve of Ohio (STAR Ohio).
8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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. Except as noted above, 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At December 31, 2019, the carrying amount of the Council's deposits was \$625,584. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2019, \$184,508 of the Council's bank balance of \$752,868 was exposed to custodial risk as discussed below, while \$566,353 of the Council's bank balance was covered by the Federal Deposit Insurance Corporation and \$2,006 was covered by the National Credit Union Share Insurance Fund.

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, 2019, 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	\$ 18,495,808	\$ -	\$ 18,495,808
Amortized Cost:			
STAR Ohio	<u>158,794</u>	<u>158,794</u>	<u>-</u>
Total	<u>\$ 18,654,602</u>	<u>\$ 158,794</u>	<u>\$ 18,495,808</u>

During the current period, the Council invested in Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal Farm Credit Bonds, and Money Market Funds. During the year ended December 31, 2019, investments from all sources earned \$362,599 in interest and increased in value by \$131,045.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

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 money market funds are valued using quoted market prices in active markets (Level 1 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.

Credit Risk: Standard & Poor's has assigned STAR Ohio and money market funds a 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 \$18,654,602 the Council has invested, \$18,495,808 is insured by the SIPC and \$158,794 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, 2019:

Measurement/Investment Type	Measurement Value	% of Total
Fair Value:		
PNC	\$ 18,495,808	99.15%
Amortized Cost:		
STAR Ohio	158,794	0.85%
Total	\$ 18,654,602	100.00%

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - RECEIVABLES

Receivables at December 31, 2019 consisted primarily of intergovernmental grants and entitlements. A summary of the receivables reported on the statement of net position follows:

Due From Other Governments	\$ 365,969
Other Miscellaneous	<u>7,171</u>
 Total	 <u>\$ 373,140</u>

NOTE 5 - CAPITAL ASSETS

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

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
Capital Assets Not Being Depreciated:				
Land	\$ 21,860	\$ -	\$ -	\$ 21,860
Total Capital Assets Not Being Depreciated	<u>21,860</u>	<u>-</u>	<u>-</u>	<u>21,860</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	26,558	-	-	26,558
Building	502,163	-	-	502,163
Building Improvements	<u>123,197</u>	<u>-</u>	<u>-</u>	<u>123,197</u>
Total Capital Assets Being Depreciated	<u>651,918</u>	<u>-</u>	<u>-</u>	<u>651,918</u>
Less: Accumulated Depreciation				
Furniture and Equipment	(23,539)	(364)	-	(23,903)
Building	(81,392)	(11,298)	-	(92,690)
Building Improvements	<u>(15,555)</u>	<u>(2,796)</u>	<u>-</u>	<u>(18,351)</u>
Total accumulated depreciation	<u>(120,486)</u>	<u>(14,458)</u>	<u>-</u>	<u>(134,944)</u>
Total capital assets, being depreciated	<u>531,432</u>	<u>(14,458)</u>	<u>-</u>	<u>516,974</u>
Capital Asset, Net	<u>\$ 553,292</u>	<u>\$ (14,458)</u>	<u>\$ -</u>	<u>\$ 538,834</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, 2019, 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019.

B. Litigation

The Council is not party to any legal proceeding.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

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/asset 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 is presented as a long-term net pension liability/asset 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 both the accrual and modified accrual bases of accounting.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	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
Traditional Plan 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	Traditional Plan 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	Traditional Plan 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
Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 35 years and 1.25% 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 3.00%.

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 1.00% 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 3.00% COLA adjustment on the defined benefit portion of their benefit.

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:

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	State and Local
2019 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee ***	10.0 %
2019 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits ****	0.0 %
Total Employer	14.0 %
Employee	10.0 %

*** Member contributions within the combined plan are not used to fund the defined benefit retirement allowance

**** This employer health care rate is for the traditional and combined plans. The employer contribution for the member-directed plan is 4.00%.

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 \$197,717 for 2019. Of this amount, \$27,740 is reported as accrued payroll and benefits.

Net 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, 2018, 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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share and pension expense:

	OPERS - Traditional	OPERS - Combined	OPERS - Member- Directed	Total
Proportion of the net pension liability/asset prior measurement date	0.01097000%	0.00996200%	0.00010000%	
Proportion of the net pension liability/asset current measurement date	<u>0.01086100%</u>	<u>0.00904900%</u>	<u>0.00000000%</u>	
Change in proportionate share	<u>-0.00010900%</u>	<u>-0.00091300%</u>	<u>-0.00010000%</u>	
Proportionate share of the net pension liability	\$ 2,974,608	\$ -	\$ -	\$ 2,974,608
Proportionate share of the net pension asset	-	(10,119)	-	(10,119)
Pension expense	629,747	2,808	-	632,555

At December 31, 2019, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS - Traditional	OPERS - Combined	Member- Directed	Total
Deferred outflows of resources				
Differences between expected and actual experience	\$ 137	\$ -	\$ -	\$ 137
Net difference between projected and actual earnings on pension plan investments	403,737	2,181	-	405,918
Changes of assumptions	258,947	2,260	-	261,207
Changes in employer's proportionate percentage/ difference between employer contributions	7,539	-	-	7,539
Contributions subsequent to the measurement date	191,426	5,473	818	197,717
Total deferred outflows of resources	<u>\$ 861,786</u>	<u>\$ 9,914</u>	<u>\$ 818</u>	<u>\$ 872,518</u>

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	OPERS - Traditional	OPERS - Combined	Total
Deferred inflows of resources			
Differences between expected and actual experience	\$ 39,059	\$ 4,133	\$ 43,192
Changes in employer's proportionate percentage/ difference between employer contributions	2,923	-	2,923
Total deferred inflows of resources	<u>\$ 41,982</u>	<u>\$ 4,133</u>	<u>\$ 46,115</u>

\$197,717 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, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS - Traditional	OPERS - Combined	Total
Year Ending December 31:			
2020	\$ 272,309	\$ 343	\$ 272,652
2021	130,848	(91)	130,757
2022	37,454	(47)	37,407
2023	187,767	632	188,399
2024	-	(266)	(266)
Thereafter	-	(263)	(263)
Total	<u>\$ 628,378</u>	<u>\$ 308</u>	<u>\$ 628,686</u>

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, 2018, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	
Current measurement date	7.20%
Prior measurement date	7.50%
Actuarial cost method	Individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. 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 expected 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 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 was a loss of 2.94% for 2018.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.79 %
Domestic equities	19.00	6.21
Real estate	10.00	4.90
Private equity	10.00	10.81
International equities	20.00	7.83
Other investments	18.00	5.50
Total	<u>100.00 %</u>	<u>5.95 %</u>

Discount Rate - The discount rate used to measure the total pension liability/asset was 7.20%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The discount rate used to measure total pension liability prior to December 31, 2018 was 7.50%. 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/Asset 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 7.20%, 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 (6.20%) or one-percentage-point higher (8.20%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Council's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 4,394,361	\$ 2,974,608	\$ 1,794,780
Combined Plan	(3,348)	(10,119)	(15,021)

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in accrued payroll and benefits on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (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.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 75. See OPERS' CAFR referenced below for additional information.

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 Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care was 0.00% for the Traditional and Combined plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.00%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Council's contractually required contribution was \$327 for 2019. Of this amount, \$46 is reported as accrued payroll and benefits.

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The Council's proportion of the net OPEB liability was based on the Council's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

	OPERS
Proportion of the net OPEB liability prior measurement date	0.01052000%
Proportion of the net OPEB liability current measurement date	<u>0.01038000%</u>
Change in proportionate share	<u>-0.00014000%</u>
Proportionate share of the net OPEB liability	\$ 1,353,307
OPEB expense	\$ 121,702

At December 31, 2019, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS
Deferred outflows of resources	
Differences between expected and actual experience	\$ 458
Net difference between projected and actual earnings on OPEB plan investments	62,041
Changes of assumptions	43,631
Changes in employer's proportionate percentage/ difference between employer contributions	2,680
Contributions subsequent to the measurement date	327
Total deferred outflows of resources	<u>\$ 109,137</u>

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

	OPERS
Deferred inflows of resources	
Differences between expected and actual experience	\$ 3,672
Changes in employer's proportionate percentage/ difference between employer contributions	11,827
Total deferred inflows of resources	\$ 15,499

\$327 reported as deferred outflows of resources related to OPEB resulting from Council contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	Total
Year Ending December 31:		
2020	\$ 45,138	\$ 45,138
2021	6,880	6,880
2022	10,038	10,038
2023	31,254	31,254
2024	1	1
Total	\$ 93,311	\$ 93,311

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 health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Wage Inflation	3.25%
Projected Salary Increases, including inflation	3.25 to 10.75% including wage inflation
Single Discount Rate:	
Current measurement date	3.96%
Prior Measurement date	3.85%
Investment Rate of Return	
Current measurement date	6.00%
Prior Measurement date	6.50%
Municipal Bond Rate	
Current measurement date	3.71%
Prior Measurement date	3.31%
Health Care Cost Trend Rate	
Current measurement date	10.00% initial, 3.25% ultimate in 2029
Prior Measurement date	7.50%, initial 3.25%, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

The long-term expected rate of return on health care 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 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. 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 Health Care portfolio is a loss of 5.60% for 2018.

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 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	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trust	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	100.00 %	5.16 %

Discount Rate - A single discount rate of 3.96% was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Council's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - The following table presents the Council's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96%, as well as what the Council's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96%) or one-percentage-point higher (4.96%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Council's proportionate share of the net OPEB liability	\$ 1,731,384	\$ 1,353,307	\$ 1,052,636

**MID EAST OHIO REGIONAL COUNCIL
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the Council's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.00% lower or 1.00% higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate Assumption</u>	<u>1% Increase</u>
Council's proportionate share of the net OPEB liability	\$ 1,300,822	\$ 1,353,307	\$ 1,413,756

NOTE 10 - SUBSEQUENT EVENTS

The United States of America and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Council. The Council's investment portfolio may incur a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Council's future operating costs, receipts, and any recovery from emergency funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION

MID EAST OHIO REGIONAL COUNCIL

SCHEDULES OF THE 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 SIX YEARS (1)			
	2019	2018	2017	2016
<i>Traditional Plan:</i>				
Council's proportion of the net pension liability	0.010861%	0.010970%	0.010753%	0.011584%
Council's proportionate share of the net pension liability	\$ 2,974,608	\$ 1,720,980	\$ 2,441,823	\$ 2,006,495
Council's covered payroll	\$ 1,633,286	\$ 1,335,415	\$ 1,371,992	\$ 1,437,042
Council's proportionate share of the net pension liability as a percentage of its covered payroll	182.12%	128.87%	177.98%	139.63%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	84.66%	77.25%	81.08%
<i>Combined Plan:</i>				
Council's proportion of the net pension asset	0.009049%	0.009962%	0.009634%	0.006270%
Council's proportionate share of the net pension asset	\$ 10,119	\$ 13,562	\$ 5,362	\$ 3,051
Council's covered payroll	\$ 38,707	\$ 40,800	\$ 37,500	\$ 22,825
Council's proportionate share of the net pension asset as a percentage of its covered payroll	26.14%	33.24%	14.30%	13.37%
Plan fiduciary net position as a percentage of the total pension asset	126.64%	137.28%	116.55%	116.90%
<i>Member Directed Plan:</i>				
Council's proportion of the net pension asset	0.000000%	0.000100%	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	0.00%	0.00%	0.08%	0.07%
Plan fiduciary net position as a percentage of the total pension asset	113.42%	124.46%	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 fiscal year were determined as of the Council's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>
	0.012280%	0.012280%
\$	1,481,105	\$ 1,447,652
\$	1,494,600	\$ 1,442,823
	99.10%	100.33%
	86.45%	86.36%
	0.015184%	0.015184%
\$	5,846	\$ 1,593
\$	55,500	\$ 41,938
	10.53%	3.80%
	114.83%	104.56%

MID EAST OHIO REGIONAL COUNCIL

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SEVEN YEARS (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 191,426	\$ 228,660	\$ 173,604	\$ 164,639
Contributions in relation to the contractually required contribution	<u>(191,426)</u>	<u>(228,660)</u>	<u>(173,604)</u>	<u>(164,639)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 1,367,329	\$ 1,633,286	\$ 1,335,415	\$ 1,371,992
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 5,473	\$ 5,419	\$ 5,304	\$ 4,500
Contributions in relation to the contractually required contribution	<u>(5,473)</u>	<u>(5,419)</u>	<u>(5,304)</u>	<u>(4,500)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 39,093	\$ 38,707	\$ 40,800	\$ 37,500
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 818	\$ -	\$ -	\$ 1,633
Contributions in relation to the contractually required contribution	<u>(818)</u>	<u>-</u>	<u>-</u>	<u>(1,633)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 8,180	\$ -	\$ -	\$ 17,189
Contributions as a percentage of covered payroll	10.00%	10.00%	10.00%	9.50%

(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

<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 172,445	\$ 179,352	\$ 187,567
<u>(172,445)</u>	<u>(179,352)</u>	<u>(187,567)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,437,042	\$ 1,494,600	\$ 1,442,823
12.00%	12.00%	13.00%
\$ 2,739	\$ 6,660	\$ 5,452
<u>(2,739)</u>	<u>(6,660)</u>	<u>(5,452)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 22,825	\$ 55,500	\$ 41,938
12.00%	12.00%	13.00%
\$ 8,359		
<u>(8,359)</u>		
<u>\$ -</u>		
\$ 69,658		
12.00%		

MID EAST OHIO REGIONAL COUNCIL

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Council's proportion of the net OPEB liability	0.010380%	0.010520%	0.010417%
Council's proportionate share of the net OPEB liability	\$ 1,353,307	\$ 1,142,395	\$ 1,052,169
Council's covered payroll	\$ 1,671,993	\$ 1,376,215	\$ 1,426,681
Council's proportionate share of the net OPEB liability as a percentage of its covered payroll	80.94%	83.01%	73.75%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%	54.05%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal 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 THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 327	\$ -	\$ 13,762	\$ 28,963
Contributions in relation to the contractually required contribution	<u>(327)</u>	<u>-</u>	<u>(13,762)</u>	<u>(28,963)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Council's covered payroll	\$ 1,414,602	\$ 1,671,993	\$ 1,376,215	\$ 1,426,681
Contributions as a percentage of covered payroll	0.02%	0.00%	1.00%	2.03%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 29,197	\$ 31,146	\$ 14,848	\$ 43,039	\$ 40,293	\$ 58,503
<u>(29,197)</u>	<u>(31,146)</u>	<u>(14,848)</u>	<u>(43,039)</u>	<u>(40,293)</u>	<u>(58,503)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,529,525	\$ 1,550,100	\$ 1,484,761	\$ -	\$ -	\$ -
1.91%	2.01%	1.00%	0.00%	0.00%	0.00%

MID EAST OHIO REGIONAL COUNCIL

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019

PENSION

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2019.

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%. There were no changes in assumptions for 2018. For 2019 the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.50% down to 7.20%.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2017-2019.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%. For 2019, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.85% up to 3.96%, (b) The investment rate of return was decreased from 6.50% percent down to 6.00%, (c) the municipal bond rate was increased from 3.31% up to 3.71% and (d) the health care cost trend rate was increased from 7.50%, initial/3.25%, ultimate in 2028 up to 10.00%, initial/3.25%, ultimate in 2029.

**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, 2019, and the related notes to the financial statements, which collectively comprise Mid East Ohio Regional Council's basic financial statements and have issued our report thereon dated July 16, 2020. Furthermore, as discussed in Note 10 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods.

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.

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.".

Julian & Grube, Inc.
July 16, 2020

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OHIO AUDITOR OF STATE KEITH FABER



MID EAST OHIO REGIONAL COUNCIL

KNOX COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 9/24/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov