



OHIO AUDITOR OF STATE  
**KEITH FABER**





**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY  
JUNE 30, 2020**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Fiduciary Net Position	
Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Position	
Fiduciary Funds.....	20
Notes to the Basic Financial Statements .....	21
Required Supplementary Information:	
Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System of Ohio .....	56
State Teachers Retirement System of Ohio .....	58
Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset):	
School Employees Retirement System of Ohio .....	60
State Teachers Retirement System of Ohio .....	61

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY  
JUNE 30, 2020

TABLE OF CONTENTS  
(Continued)

TITLE	PAGE
Prepared by Management (Continued):	
Required Supplementary Information (Continued):	
Schedule of the Educational Service Center's Contributions:	
School Employees Retirement System of Ohio .....	62
State Teachers Retirement System of Ohio .....	64
Notes to Required Supplementary Information .....	66
Supplemental Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – General Fund .....	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – Special Education Special Revenue Fund .....	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – Striving Readers Grant Special Revenue Fund .....	72
Notes to the Supplemental Information.....	73
Schedule of Expenditures of Federal Awards .....	75
Notes to the Schedule of Expenditures of Federal Awards.....	76
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	77
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	79
Schedule of Findings.....	81

# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center'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 Educational Service Center'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 Educational Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2020, the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Also, as discussed in Note 21 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding these matters.

**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 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.

*Supplementary and Other Information*

Our audit was conducted to opine on the Educational Service Center's basic financial statements taken as a whole.

The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual present additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of the Educational Service Center'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 Educational Service Center's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

March 16, 2021

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**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

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The discussion and analysis of the Muskingum Valley Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key financial highlights for the fiscal year 2020 are as follows:

- Net position of governmental activities decreased \$2,590,963.
- General revenues accounted for \$985,019 in revenue or 4 percent of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$20,937,965, or 96 percent of total revenues of \$21,922,984.
- The Educational Service Center had \$24,513,947 in expenses related to governmental activities; program specific charges for services and sales and grants and contributions and general revenues were adequate to offset all of these expenses.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Muskingum Valley Educational Service Center (ESC) as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

***Reporting the Educational Service Center as a Whole***

**Statement of Net Position and Statement of Activities**

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2020?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

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These two statements report the Educational Service Center's net position and changes in position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Position and the Statement of Activities, all of the Educational Service Center's activities are reported as governmental including instruction, support services, operation of non-instructional services, and extracurricular activities.

***Reporting the Educational Service Center's Most Significant Funds***

***Fund Financial Statements***

The analysis of the Educational Service Center's major fund begins on page 10. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund, the Special Education Special Revenue Fund, and the Striving Readers Grant Special Revenue Fund.

***Governmental Funds*** Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The Educational Service Center does not have any proprietary funds.

***Fiduciary Funds*** – The Educational Service Center has an external investment pool that accounts for all the fiscal activities of the "Ohio Coalition for Equity and Adequacy of School Funding." The Educational Service Center also has custodial funds. Custodial funds are custodial in nature (assets equaling liabilities) and do not involve measurements of results of operations. Fiduciary funds are excluded from the other financial statements because their assets are not available to the Educational Service Center to finance operations. Fiduciary funds use the accrual basis of accounting.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for governmental activities for 2020 compared to 2019.

**Table 1**  
**Net Position**

	2020	Restated 2019	Change
<b>Assets</b>			
Current and Other Assets	\$7,106,106	\$7,228,332	(\$122,226)
Capital Assets	323,644	312,049	11,595
Total Assets	<u>7,429,750</u>	<u>7,540,381</u>	<u>(110,631)</u>
<b>Deferred Outflows of Resources</b>			
Pension	5,261,317	7,861,223	(2,599,906)
OPEB	1,024,512	782,002	242,510
Total Deferred Outflows	<u>6,285,829</u>	<u>8,643,225</u>	<u>(2,357,396)</u>
<b>Liabilities</b>			
Other Liabilities	3,014,309	3,310,704	(296,395)
Long-Term Liabilities:			
Due Within One Year	37,356	23,084	14,272
Due In More Than One Year:			
Net Pension Liability	27,831,723	27,024,367	807,356
Net OPEB Liability	3,854,060	4,099,311	(245,251)
Other Amounts	1,389,395	1,434,908	(45,513)
Total Liabilities	<u>36,126,843</u>	<u>35,892,374</u>	<u>234,469</u>
<b>Deferred Inflows of Resources</b>			
Pension	1,208,725	1,619,625	(410,900)
OPEB	2,796,097	2,496,730	299,367
Total Deferred Inflows of Resources	<u>4,004,822</u>	<u>4,116,355</u>	<u>(111,533)</u>
<b>Net Position</b>			
Investment in Capital Assets	323,644	312,049	11,595
Restricted	344,557	185,880	158,677
Unrestricted (Deficits)	<u>(27,084,287)</u>	<u>(24,323,052)</u>	<u>(2,761,235)</u>
Total Net Position	<u>(\$26,416,086)</u>	<u>(\$23,825,123)</u>	<u>(\$2,590,963)</u>

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2019. 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 School District is not responsible for certain key factors affecting

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

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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.

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.

Total assets decreased \$110,631. Current assets decreased by \$122,226, primarily due to decreases in intergovernmental receivable and accounts receivable, of \$382,540 and \$32,005, respectively. This decrease was offset by an increase in cash and cash equivalents of \$321,175.

Total liabilities increased \$234,469. An increase in net pension liability of \$807,356 was offset by decreases in compensated absences, net OPEB liability, and other liabilities of \$31,241, \$245,251, and \$296,395, respectively.

Table 2 shows the changes in net position for governmental activities for the fiscal year ended June 30, 2020, and comparisons to fiscal year 2019.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

**Table 2**  
**Changes in Net Position**

<b>Revenues</b>	2020	Restated 2019	Change
Program Revenues:			
Charges for Services and Sales	\$16,711,443	\$19,413,263	(\$2,701,820)
Operating Grants and Contributions	4,226,522	3,700,639	525,883
Total Program Revenues	<u>20,937,965</u>	<u>23,113,902</u>	<u>(2,175,937)</u>
General Revenues:			
Grants and Entitlements	783,666	813,794	(30,128)
Investment Earnings	56,528	63,238	(6,710)
Miscellaneous	144,825	251,715	(106,890)
Total General Revenues	<u>985,019</u>	<u>1,128,747</u>	<u>(143,728)</u>
Total Revenues	<u>21,922,984</u>	<u>24,242,649</u>	<u>(2,319,665)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	906,986	823,711	83,275
Special	9,599,868	9,612,628	(12,760)
Student Intervention Services	1,322,148	1,220,032	102,116
Support Services:			
Pupils	5,158,689	4,510,802	647,887
Instructional Staff	4,501,756	3,682,164	819,592
Board of Education	33,591	34,311	(720)
Administration	1,337,745	1,299,470	38,275
Fiscal	685,669	597,624	88,045
Operation and Maintenance of Plant	153,426	165,546	(12,120)
Pupil Transportation	9,517	19,310	(9,793)
Central	650,678	730,941	(80,263)
Operation of Non-Instructional Services:			
Community Services	124,509	124,937	(428)
Extracurricular Activities	29,365	17,712	11,653
Total Expenses	<u>24,513,947</u>	<u>22,839,188</u>	<u>1,674,759</u>
Change in Net Position	(2,590,963)	1,403,461	(3,994,424)
Net Position (Deficit) at Beginning of Year	<u>(23,825,123)</u>	<u>(25,228,584)</u>	<u>1,403,461</u>
Net Position (Deficit) at End of Year	<u><u>(\$26,416,086)</u></u>	<u><u>(\$23,825,123)</u></u>	<u><u>(\$2,590,963)</u></u>

The largest component of the increase in program expense results from changes in assumptions and benefit terms related to pensions in the prior year. For the prior year, STRS adopted changes in benefit terms. As a result of these changes, OPEB expense for STRS increased from a negative \$2,943,837 in fiscal year 2019 to a negative OPEB expense of \$420,034 for fiscal year 2020.

The Educational Service Center provides special instruction, pupil support, and instructional support services to its member districts and, in some cases, districts outside its service region. Charges for services are modeled to cover the cost of the service plus an administrative fee. As economic conditions warrant, the Educational Service Center adjusts its expenditures and charges for services to maintain expenditures within its resources.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

Net position of the Educational Service Center's activities decreased \$2,590,963 in fiscal year 2020. Total expenses of \$24,513,947 were over the program revenues of \$20,937,965 and general revenues of \$985,019.

The Statement of Activities shows the cost of program services and the charges for services and grants and contributions, offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted entitlements.

**Table 3**  
**Governmental Activities**

	2020 Total Cost of Services	2020 Net Cost of Services	2019 Total Cost of Services	2019 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$906,986	(\$215,325)	\$823,711	(\$181,407)
Special	9,599,868	697,699	9,612,628	(1,341,490)
Student Intervention Services	1,322,148	(280,631)	1,220,032	(104,081)
Support Services:				
Pupils	5,158,689	558,091	4,511,302	(661,618)
Instructional Staff	4,501,756	1,817,445	3,682,164	921,944
Board of Education	33,591	33,591	34,311	34,311
Administration	1,337,745	878,968	1,299,470	941,672
Fiscal	685,669	(271,463)	597,624	(364,116)
Operation and Maintenance of Plant	153,426	25,561	165,546	87,632
Pupil Transportation	9,517	(389)	19,310	1,580
Central	650,678	370,130	730,941	449,306
Operation of Non-Instructional Services:				
Community Services	124,506	(25,104)	124,937	(41,402)
Extracurricular Activities	29,365	(12,591)	17,712	(16,795)
<b>Totals</b>	<u>\$24,513,944</u>	<u>\$3,575,982</u>	<u>\$22,839,688</u>	<u>(\$274,464)</u>

Special instruction programs comprise approximately 39 percent of total governmental program expenses while support services comprise approximately 51 percent of total governmental program expenses. Of the support services expenses, approximately 41 percent is for pupils, 36 percent for instructional staff, and 11 percent for administration.

**The Educational Service Center's Major Funds**

The Educational Service Center's General Fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$17,935,396, a decrease of \$2,549,135 over 2019, largely due to decreases in tuition and fees and charges for services. Expenditures also increased \$2,937,599 over 2019 to \$17,875,954, primarily due to decreases in special instruction, pupil support services, and instructional staff support services. The changes are largely due to the Educational Service Center trying to meet the needs of their member districts, however the costs associated with the different services exceeded the increase in revenues. These changes resulted in an increase in fund balance of \$59,422.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

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The Educational Service Center's Special Education Fund is accounted for using the modified accrual basis of accounting. The Special Education Fund had total revenues of \$1,186,530 and expenditures of \$1,177,154, which resulted in an increase in fund balance of \$9,376. Grant revenues decreased in 2020 in the amount of \$77,462, while expenses decreased \$97,694 from 2019 amounts.

The Educational Service Center's Striving Readers Grant Fund is accounted for using the modified accrual basis of accounting. The Striving Readers Grant Fund had total revenues of \$394,534 and expenditures of \$436,968, which resulted in a decrease in fund balance of \$42,434. These changes are a result of the third year of this grant. The grant period has been extended for another year.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2019, the Educational Service Center had \$323,644 invested in land and land improvements; buildings and improvements; and furniture, fixtures, and equipment. Table 4 shows fiscal year 2020 balances compared to 2019.

**Table 4**  
**Capital Assets at June 30, 2020**  
**(Net of Depreciation)**

	2020	2019
Land	\$10,840	\$10,840
Land Improvements	7,472	8,101
Buildings and Improvements	135,937	144,871
Furniture, Fixtures, and Equipment	169,395	148,237
<b>Totals</b>	<b>\$323,644</b>	<b>\$312,049</b>

See Note 9 for more detailed information of the Educational Service Center's capital assets.

*Debt*

At June 30, 2020, the Educational Service Center only had compensated absences payable, net pension liability, and net OPEB liability as long-term liabilities. For additional information, see Notes 11, 12, and 15 to the basic financial statements.

*Economic Factors*

The Muskingum Valley Educational Service Center's net position decreased \$2,590,963, primarily due to changes in the net pension and net OPEB liabilities. As the preceding information shows, the Educational Service Center relies heavily on contracts with its member school districts in Coshocton, Hocking, Morgan, Muskingum, and Perry Counties. Existing contracts with member districts and carryover balances will fund the Educational Service Center's operations during fiscal year 2021. However, the future financial health of the Educational Service Center presents certain challenges.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*Unaudited*

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General Fund revenue for the Educational Service Center is generated by two primary means: State funding and fees for services. State funding has declined as a percentage of the total revenue budget throughout the course of the Educational Service Center's existence. As a comparison of changes in State funding over time, in fiscal year 1998, State funds accounted for 70 percent of total General Fund revenue. For fiscal year 2020, State funding accounted for only 4% of the General Fund's total revenues. Muskingum Valley Educational Service Center uses its State funding to offset administrative costs. As the State of Ohio continues to reduce Educational Service Center funding, Muskingum Valley Educational Service Center must search for ways to fund its administrative costs by either raising administrative fees charged for services or serving as the fiscal agent for additional programs and grants. During fiscal year 2020, Muskingum Valley Educational Service Center experienced a reduction in revenue sources for certain instructional support service programs. In order to sustain those programs for fiscal year 2021 and beyond, Muskingum Valley Educational Service Center must find other sources to fund the operations of those programs.

Another challenge the Educational Service Center faces is the financial circumstances of its member districts. With the uncertainty of adequate State funding, districts may not be able to continue with existing Educational Service Center services or obtain additional Educational Service Center services. As the State of Ohio reduces Educational Service Center State funding, Educational Service Center customers will be faced with higher participation and service fees.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, districts, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Scott Pittman, Treasurer at the Muskingum Valley Educational Service Center, 205 North 7<sup>th</sup> Street, Zanesville, Ohio 43701. You may also email the treasurer at [scott.pittman@mvesc.org](mailto:scott.pittman@mvesc.org).



**Muskingum Valley Educational Service Center, Ohio**

*Statement of Net Position*

*June 30, 2020*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,632,499
Inventory Held for Resale	18,251
Accounts Receivable	765
Intergovernmental Receivable	1,806,781
Prepaid Items	234,394
Net OPEB Asset	1,413,416
Nondepreciable Capital Assets	10,840
Depreciable Capital Assets, Net	<u>312,804</u>
<i>Total Assets</i>	<u>7,429,750</u>
<b>Deferred Outflows of Resources</b>	
Pensions	5,261,317
OPEB	<u>1,024,512</u>
<i>Total Deferred Outflows of Resources</i>	<u>6,285,829</u>
<b>Liabilities</b>	
Accounts Payable	74,499
Accrued Wages and Benefits Payable	2,069,722
Vacation Benefits Payable	53,971
Matured Compensated Absences Payable	10,365
Intergovernmental Payable	805,752
Long-Term Liabilities:	
Due within One Year	37,356
Due in More than One Year:	
Net Pension Liability	27,831,723
Net OPEB Liability	3,854,060
Amounts Due in More Than One Year	<u>1,389,395</u>
<i>Total Liabilities</i>	<u>36,126,843</u>
<b>Deferred Inflows of Resources</b>	
Pensions	1,208,725
OPEB	<u>2,796,097</u>
<i>Total Deferred Inflows of Resources</i>	<u>4,004,822</u>
<b>Net Position</b>	
Investment in Capital Assets	323,644
Restricted for:	
Unclaimed Monies	8,999
State Grants	135,146
Federal Grants	116,297
Local Initiatives	84,115
Unrestricted (Deficit)	<u>(27,084,287)</u>
<i>Total Net Position</i>	<u><u>(\$26,416,086)</u></u>

See accompanying notes to the general purpose external financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June, 30, 2020*

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
<b>Governmental Activities</b>				<b>Governmental Activities</b>
Instruction:				
Regular	\$906,986	\$930,953	\$191,358	\$215,325
Special	9,599,868	7,971,312	930,857	(697,699)
Student Intervention Services	1,322,148	1,212,806	389,973	280,631
Support Services:				
Pupils	5,158,689	4,222,471	378,127	(558,091)
Instructional Staff	4,501,756	992,370	1,691,941	(1,817,445)
Board of Education	33,591	0	0	(33,591)
Administration	1,337,745	124,690	334,087	(878,968)
Fiscal	685,669	865,648	91,484	271,463
Operation and Maintenance of Plant	153,426	22,252	105,613	(25,561)
Pupil Transportation	9,517	0	9,906	389
Central	650,678	226,626	53,922	(370,130)
Operation of Non-Instructional Services:				
Community Services	124,509	100,359	49,254	25,104
Extracurricular Activities	29,365	41,956	0	12,591
<b>Totals</b>	<b>\$24,513,947</b>	<b>\$16,711,443</b>	<b>\$4,226,522</b>	<b>(3,575,982)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				783,666
Investment Earnings				56,528
Miscellaneous				144,825
<i>Total General Revenues</i>				<u>985,019</u>
<i>Change in Net Position</i>				(2,590,963)
<i>Net Position (Deficit) at Beginning of Year</i> <i>(Restated - See Note 3)</i>				<u>(23,825,123)</u>
<i>Net Position (Deficit) at End of Year</i>				<u><u>(\$26,416,086)</u></u>

See accompanying notes to the general purpose external financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2020*

	General	Special Education	Striving Readers Grant	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$3,524,846	\$0	\$0	\$98,654	\$3,623,500
Receivables:					
Accounts	765	0	0	0	765
Intergovernmental	264,958	361,175	445,549	735,099	1,806,781
Interfund	470,588	0	0	0	470,588
Prepaid Items	224,679	6,210	0	3,505	234,394
Inventory Held for Resale	18,251	0	0	0	18,251
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	8,999	0	0	0	8,999
<i>Total Assets</i>	<u>\$4,513,086</u>	<u>\$367,385</u>	<u>\$445,549</u>	<u>\$837,258</u>	<u>\$6,163,278</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$28,643	\$17,588	\$7	\$28,261	\$74,499
Accrued Wages and Benefits Payable	1,769,188	99,036	0	201,498	2,069,722
Interfund Payable	0	129,461	82,298	258,829	470,588
Matured Compensated Absences Payable	10,365	0	0	0	10,365
Intergovernmental Payable	311,416	13,948	445,549	34,839	805,752
<i>Total Liabilities</i>	<u>2,119,612</u>	<u>260,033</u>	<u>527,854</u>	<u>523,427</u>	<u>3,430,926</u>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue	40,601	104,817	0	324,564	469,982
<b>Fund Balances</b>					
Nonspendable:					
Prepaid Items	224,679	6,210	0	3,505	234,394
Unclaimed Monies	8,999	0	0	0	8,999
Restricted for:					
State Grants	0	0	0	118	118
Local Initiatives	0	0	0	84,098	84,098
Committed to:					
Purchases for Contracts	24,200	0	0	0	24,200
Assigned to:					
Purchases on Order	59,536	0	0	0	59,536
Subsequent Year Appropriations	90,181	0	0	0	90,181
School Support Services	249,145	0	0	0	249,145
Unassigned (Deficits)	1,696,133	(3,675)	(82,305)	(98,454)	1,511,699
<i>Total Fund Balances</i>	<u>2,352,873</u>	<u>2,535</u>	<u>(82,305)</u>	<u>(10,733)</u>	<u>2,262,370</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$4,513,086</u>	<u>\$367,385</u>	<u>\$445,549</u>	<u>\$837,258</u>	<u>\$6,163,278</u>

See accompanying notes to the general purpose external financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2020*

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<b>Total Governmental Fund Balances</b>	\$2,262,370
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*Amounts reported for governmental activities in the statement of net position are different because*

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	323,644
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Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:	
Intergovernmental Revenues	429,381
Tuition and Fees	21,848
Charges for Services and Sales	18,753
	469,982

The net pension liability, net OPEB asset, and net OPEB liability is not due and payable in the current period; therefore, the liability, asset, and related deferred inflows/outflows are not reported in the governmental funds:	
Net OPEB Asset	1,413,416
Deferred Outflows - Pension	5,261,317
Deferred Inflows - Pension	(1,208,725)
Net Pension Liability	(27,831,723)
Deferred Outflows - OPEB	1,024,512
Deferred Inflows - OPEB	(2,796,097)
Net OPEB Liability	(3,854,060)
	(27,991,360)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Vacation Benefits Payable	(53,971)
Sick Leave Benefits Payable	(1,426,751)
	(1,480,722)

<i>Net Position (Deficit) of Governmental Activities</i>	(\$26,416,086)
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See accompanying notes to the general purpose external financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2020*

	General	Special Education	Striving Readers Grant	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Intergovernmental	\$843,155	\$1,186,530	\$394,534	\$2,238,473	\$4,662,692
Investment Earnings	56,528	0	0	0	56,528
Tuition and Fees	11,681,313	0	0	0	11,681,313
Charges for Services	5,116,536	0	0	0	5,116,536
Extracurricular Activities	11,091	0	0	0	11,091
Gifts and Donations	5,223	0	0	350	5,573
Miscellaneous	221,550	0	0	70	221,620
<i>Total Revenues</i>	<u>17,935,396</u>	<u>1,186,530</u>	<u>394,534</u>	<u>2,238,893</u>	<u>21,755,353</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	613,052	0	201,472	9,705	824,229
Special	7,513,949	0	0	857,582	8,371,531
Student Intervention Services	905,071	0	0	339,027	1,244,098
Support Services:					
Pupils	4,327,811	128	0	317,169	4,645,108
Instructional Staff	2,334,623	1,026,167	219,742	373,561	3,954,093
Board of Education	32,465	0	0	0	32,465
Administration	942,639	96,293	0	212,468	1,251,400
Fiscal	501,894	42,982	0	39,854	584,730
Operation and Maintenance of Plant	82,291	11,584	0	69,085	162,960
Pupil Transportation	249	0	4,704	4,564	9,517
Central	530,022	0	11,050	35,790	576,862
Operation of Non-Instructional Services:					
Community Services	64,339	0	0	42,754	107,093
Extracurricular Activities	27,549	0	0	0	27,549
<i>Total Expenditures</i>	<u>17,875,954</u>	<u>1,177,154</u>	<u>436,968</u>	<u>2,301,559</u>	<u>21,791,635</u>
<i>Net Change in Fund Balance</i>	59,442	9,376	(42,434)	(62,666)	(36,282)
<i>Fund Balances (Deficits) at Beginning of Year</i> <i>(Restated - See Note 3)</i>	<u>2,293,431</u>	<u>(6,841)</u>	<u>(39,871)</u>	<u>51,933</u>	<u>2,298,652</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u><u>\$2,352,873</u></u>	<u><u>\$2,535</u></u>	<u><u>(\$82,305)</u></u>	<u><u>(\$10,733)</u></u>	<u><u>\$2,262,370</u></u>

See accompanying notes to the general purpose external financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2020*

**Net Change in Fund Balances - Total Governmental Funds** (\$36,282)

*Amounts reported for governmental activities in the statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation:

Capital Asset Additions	85,005	
Depreciation Expense	<u>(70,240)</u>	14,765

Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.

Loss on Disposal of Capital Assets		(3,170)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Intergovernmental Revenues	341,923	
Charges for Services and Sales	(50,233)	
Miscellaneous	(76,795)	
Tuition and Fees	<u>(47,264)</u>	167,631

Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows.

Pensions	1,907,635	
OPEB	<u>66,489</u>	1,974,124

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities/asset are reported as pension/OPEB expense in the statement of activities.

Pensions	(4,903,997)	
OPEB	<u>171,600</u>	(4,732,397)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	(6,875)	
Sick Leave Benefits Payable	<u>31,241</u>	<u>24,366</u>

*Change in Net Position of Governmental Activities* (\$2,590,963)

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2020*

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	<u>Custodial</u>	
	<u>External Investment Pool</u>	<u>Other Custodial</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$294,441	\$0
Cash and Cash Equivalents in Segragated Accounts	<u>0</u>	<u>31,652,095</u>
<i>Total Assets</i>	<u>\$294,441</u>	<u>\$31,652,095</u>
<b>Net Position</b>		
Restricted for Individuals, Organizations, and Other Governments	<u>\$294,441</u>	<u>\$31,652,095</u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Changes in Fiduciary Net Position*

*Fiduciary Funds*

*For the Fiscal Year Ended June 30, 2020*

	Custodial	
	External Investment Pool	Other Custodial
<b>Additions</b>		
Investment Earnings	\$3,725	\$428,822
Capital Transactions:		
Amounts Invested	212,390	
Amounts Distributed	<u>(175,038)</u>	
Net Capital Transactions	<u>37,352</u>	
Amounts Received as Fiscal Agent		<u>81,512,952</u>
<i>Total Additions</i>	<u>41,077</u>	81,941,774
<b>Deductions</b>		
Distributions as Fiscal Agent		<u>79,123,822</u>
<i>Change in Fiduciary Net Position</i>	41,077	2,817,952
<i>Net Position at Beginning of Year (Restated - See Note 3)</i>	<u>253,364</u>	<u>28,834,143</u>
<i>Net Position at End of Year</i>	<u><u>\$294,441</u></u>	<u><u>\$31,652,095</u></u>

See accompanying notes to the basic financial statements



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Muskingum Valley Educational Service Center (the Educational Service Center) is located in Zanesville, Ohio, the county seat. The Educational Service Center operates programs in Coshocton, Hocking, Morgan, Muskingum, and Perry counties. The Educational Service Center provides supervisory, special education, administrative, cooperative classes, multi-handicapped programming, preschool, and other services to Crooksville Exempted Village, East Muskingum Local, Franklin Local, Logan-Hocking Local, Maysville Local, Morgan Local, New Lexington City Schools, Northern Local, Ridgewood Local, River View Local, Tri-Valley Local, West Muskingum Local, Coshocton City, Coshocton County Career Center, Mid-East Career and Technology Centers, and Zanesville City Schools. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Muskingum Valley Educational Service Center operates under a locally-elected Board form of government consisting of nine members elected at-large for staggered four year terms. The Educational Service Center has 191 support staff employees and 167 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Educational Service Center are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Muskingum Valley Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency Information Technology Center Regional Council of Governments (OME-RESA), Coalition of Rural and Appalachian Schools, and the Ohio Coalition of Equity and Adequacy of School Funding, which are defined as jointly governed organizations. The Educational Service Center also participates in the Ohio School Boards Association Workers' Compensation Group Rating Program, the Schools of Ohio Risk Sharing Authority, and the Ohio School Benefits Cooperative, which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

**B. Component Units**

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government. No separate governmental units meet the criteria for inclusion as a component unit.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (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 more significant of the Educational Service Center's accounting policies are described below.

**A. Basis Of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Educational Service Center has no business-type activities.

The statement of net position presents the cash balance, inventory, prepaid items, interfund loan balances, capital assets and debt of the governmental (and business-type) activities of the Educational Service Center at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

**Fund Financial Statements** During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds used by the Educational Service Center: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, liabilities, and deferred inflows of resources is reported as fund balance. The following is a description of the Educational Service Center's major governmental funds:

**General Fund** The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose, provided it is expended and transferred according to the general laws of Ohio.

**Special Education Special Revenue Fund** The Special Education Special Revenue Fund accounts for and reports federal grant monies which are restricted for special education.

**Striving Readers Grant Special Revenue Fund** The Striving Readers Grant Special Revenue Fund accounts for and reports federal grant monies which are restricted for the Striving Readers program.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Types** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no proprietary funds.

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The Educational Service Center has an external investment pool that accounts for all the fiscal activities of the "Ohio Coalition for Equity and Adequacy of School Funding". The Educational Service Center's custodial fund accounts for the activity of the Ohio School Benefits Cooperative, which is a claims servicing and purchasing pool, both of which the Educational Service Center acts as the fiscal agent.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (revenues) and decreases (expenses) in total net position.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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Like the government-wide statements, all proprietary and fiduciary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

Fiduciary funds present a statement of changes in fiduciary net position which reports additions to and deductions from investment trust, private purpose trust funds, and custodial funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: charges for services and sales, tuition and fees, and grants.

**Deferred Outflows/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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In addition to liabilities, the statements of financial position 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 until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB plans, and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes tuition and fees, charges for services and sales, and grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities fund on page 15. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12).

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The purpose of the measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Deposits and Investments**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds, excluding the agency funds, are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

The Educational Service Center has a segregated bank account for monies held separate from the Educational Service Center’s central bank account. This account maintains monies received in the Educational Service Center’s capacity as fiscal agent for the Ohio School Benefits Cooperative. This interest bearing depository account is presented on the financial statements as “Cash and Cash Equivalents in Segregated Accounts” since it is not deposited into the Educational Service Center treasury.

During fiscal year 2020, investments were limited to certificates of deposit. The Educational Service Center reports its nonnegotiable certificates of deposit at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2020 amounted to \$56,528, which includes \$51,429 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**F. Receivables and Payables**

Receivables and payables on the Educational Service Center’s financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2020, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of instructional materials held for resale.

**I. Capital Assets**

The Educational Service Center's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The Educational Service Center was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-30 years
Buildings and Improvements	15-30 years
Furniture, Fixtures, and Equipment	3-15 years

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, since vacation time must be used within a year of being earned.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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The Educational Service Center records a liability for accumulated unused sick leave for all employees after ten years of service with one of the State retirement systems.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which these payments will be paid.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund 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 funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**L. Internal Activity**

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**M. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the Educational Service Center are reported as restricted.

**N. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

**Nonspendable** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education or an Educational Service Center official delegated that authority by resolution or State Statute. State statute authorizes the Educational Service Center's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

**Unassigned** The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Educational Service Center applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

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

For purposes of measuring the net pension/OPEB liability (asset), 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 plans report investments at fair value.

**P. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net 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 Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Q. Estimates**

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

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET POSITION**

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Educational Service Center evaluated implementing these certain GASB pronouncements based on the guidance in GASB 95.

For fiscal year 2020, the Educational Service Center implemented GASB Statement No. 84, *Fiduciary Activities* and related guidance from (GASB) Implementation Guide No. 2019-2, *Fiduciary Activities*.

For fiscal year 2020, the Educational Service Center also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2018-1*. These changes were incorporated in the Educational Service Center's 2020 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the Educational Service Center will no longer be reporting agency funds. The Educational Service Center reviewed its agency funds and certain funds will be reported in the new fiduciary fund classification of custodial funds, while other funds have been reclassified as governmental funds. These fund reclassifications resulted in the restatement of the Educational Service Center's financial statements.

***Restatement of Fund Balances and Net Position***

The implementation of GASB Statement No. had the following effect on fund balance as of June 30, 2019:

	Governmental Funds				Total
	General	Special Education	Striving Readers	Non-Major	
Fund Balances, June 30, 2019	\$2,293,431	(\$6,841)	(\$39,871)	\$36,515	\$2,283,234
Adjustments:					
GASB 84	0	0	0	15,418	15,418
Restated Fund Balances, June 30, 2019	\$2,293,431	(\$6,841)	(\$39,871)	\$51,933	\$2,298,652

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

The implementation of GASB Statement No. 84 had the following effect on net position as of June 30, 2019:

	<u>Governmental</u>
	<u>Activities</u>
Net Position June 30, 2019	(\$23,840,541)
Adjustments:	
GASB 84	<u>15,418</u>
Restated Net Position June 30, 2019	<u><u>(\$23,825,123)</u></u>

The implementation of GASB Statement No. 84 had the following effect on fiduciary net position as of June 30, 2019:

	<u>Private Purpose</u>	<u>Investment</u>	<u>External</u>	<u>Agency</u>	<u>Custodial</u>
	<u>Trust</u>	<u>Trust</u>	<u>Investment Pool</u>		
Net Position June 30, 2019	\$15,418	\$253,364	\$0	\$0	\$0
Adjustments:					
Assets	(15,418)	(253,364)	253,364	(28,834,143)	28,834,143
Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,834,143</u>	<u>0</u>
Restated Net Position					
June 30, 2019	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$253,364</u></u>	<u><u>\$0</u></u>	<u><u>\$28,834,143</u></u>

**NOTE 4 - FUND DEFICITS**

The following special revenue funds had deficit fund balances as of June 30, 2020:

Special Education	\$3,675
Striving Readers	82,305
Public School Preschool	44,758
Miscellaneous Federal Grants	36,018
Miscellaneous State Grants	5,899
EHA Preschool Handicap	4,655
Title I	3,636

The deficits were the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

Monies held by the Educational Service Center are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands on the treasury. Active monies must be maintained either as cash in the Educational Service Center 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 Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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 or deposit accounts, including passbook accounts.

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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, and Government National Mortgage 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 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 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-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 Treasurer's investment pool (STAR Ohio); and
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. The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five percent of interim moneys available for investment at the time of purchase.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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

Deposits

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2020, \$2,649,562 of the Educational Service Center's bank balance of \$ \$35,720,705 was exposed to custodial credit risk because one of the Educational Service Center's financial institutions participating in the Ohio Pooled Collateral System (OPCS) was approved for a reduced collateral floor of 50 percent.

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

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

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

**NOTE 6 - STATE FUNDING**

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

The individual boards of education pay the costs for these services directly to the Educational Service Center.

**NOTE 7 - INTERFUND BALANCES**

Interfund balances at June 30, 2020, represent \$458,135 due to the General Fund from Special Revenue Funds for cash deficits and \$12,453 due to the General Fund from Special Revenue Funds for grant administration services.

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$470,588	\$0
Major Special Revenue Funds:		
Special Education	0	129,461
Striving Readers Grant	0	82,298
Non-Major Special Revenue Funds:		
Public Preschool	0	77,265
Title I	0	3,826
Miscellaneous State Grants	0	52,511
Preschool Handicap Grant	0	11,380
Miscellaneous Federal Grants	0	113,847
Total Special Revenue Funds	<u>0</u>	<u>470,588</u>
Total All Funds	<u>\$470,588</u>	<u>\$470,588</u>

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2020, consisted of accounts receivable (charges for services, excess costs), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Tuition	\$129,486
Program Costs	135,472
State Grants	257,178
Professional Development	161,335
IDEA B Grant	338,128
Parent Mentor Grant	6,954
Early Childhood Special Education Discretionary Grant	18,827
Early Literacy SSIP Grant	20,404
Striving Readers Grant	445,549
21st Century Grant	276,960
Priority School Support Grant	7,670
Governor's Emergency Relief	8,818
Total	<u>\$1,806,781</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
<u>Nondepreciable Capital Assets</u>				
Land	<u>\$10,840</u>	<u>\$0</u>	<u>\$0</u>	<u>\$10,840</u>
<u>Depreciable Capital Assets</u>				
Land Improvements	10,359	0	0	10,359
Buildings and Improvements	323,514	0	0	323,514
Furniture, Fixtures, and Equipment	<u>1,089,373</u>	<u>85,005</u>	<u>(132,850)</u>	<u>1,041,528</u>
Total Depreciable Capital Assets	<u>1,423,246</u>	<u>85,005</u>	<u>(132,850)</u>	<u>1,375,401</u>
Less Accumulated Depreciation				
Land Improvements	(2,258)	(629)	0	(2,887)
Buildings and Improvements	(178,643)	(8,934)	0	(187,577)
Furniture, Fixtures, and Equipment	<u>(941,136)</u>	<u>(60,677)</u>	<u>129,680</u>	<u>(872,133)</u>
Total Accumulated Depreciation	<u>(1,122,037)</u>	<u>(70,240) *</u>	<u>129,680</u>	<u>(1,062,597)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>301,209</u>	<u>14,765</u>	<u>(3,170)</u>	<u>312,804</u>
Governmental Activities Capital Assets, Net	<u>\$312,049</u>	<u>\$14,765</u>	<u>(\$3,170)</u>	<u>\$323,644</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$450
Special	3,674
Student Intervention Services	11,128
Support Services:	
Pupils	810
Instructional Staff	10,456
Administration	38,518
Operation and Maintenance	1,621
Central	<u>3,583</u>
Total Depreciation Expense	<u>\$70,240</u>

**NOTE 10 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the Educational Service Center participated with other school districts in the Schools of Ohio Risk Sharing Authority (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to SORSA. (See Note 17)

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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The types and amounts of coverage provided by the SORSA are as follows:

<u>Building and Contents (deductible waived)</u>	
Building	\$3,156,026
Personal Property	100,000
Valuable Paper and Records	1,000,000
Accounts Receivable	1,000,000
Extra Expense	1,000,000
Business Income	2,000,000
<u>Earthquake (\$50,000 deductible)</u>	2,000,000
<u>Crime Insurance (deductible waived)</u>	
Employee Theft	100,000
Forgery or Alteration	100,000
Computer Fraud	100,000
<u>Inland Marine (deductible waived)</u>	
Electronic Data Processing Media and Data Reproduction	1,250,000
<u>Fleet Insurance (deductible waived)</u>	
Automobile Liability (per occurrence)	15,000,000
Uninsured Motorists (per occurrence)	1,000,000
<u>General Liability (deductible waived)</u>	
Per Occurrence	15,000,000
Aggregate Limit	17,000,000
<u>Educational Legal Liability for General Liability (deductible waived)</u>	
Errors and Omissions	
Per Occurrence	15,000,000
Aggregate Limit	15,000,000

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

For fiscal year 2020, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

**A. Net Pension Liability/Net OPEB Liability**

The net pension liability and the net OPEB liability (asset) reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/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 pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability (asset) represent the Educational Service Center's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB 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 these estimates annually.

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net OPEB asset* or long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

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

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$600,680 for fiscal year 2019. Of this amount, \$66,106 is reported as an intergovernmental payable.

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate is deposited into the member's DC account and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty and after termination of employment.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2020 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2020, the full employer contribution was allocated to pension.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

The Educational Service Center's contractually required contribution to STRS was \$1,306,955 for fiscal year 2020. Of this amount, \$182,504 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	
Proportion of the Net Pension Liability Prior Measurement Date	0.14604170%	0.08486673%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.14974560%</u>	<u>0.08533888%</u>	
Change in Proportionate Share	<u>0.00370390%</u>	<u>0.00047215%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$8,959,542	\$18,872,181	\$27,831,723
Pension Expense	\$1,884,456	\$3,019,541	\$4,903,997

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$227,194	\$153,651	\$380,845
Changes of assumptions	0	2,216,902	2,216,902
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	342,775	413,160	755,935
School District contributions subsequent to the measurement date	<u>600,680</u>	<u>1,306,955</u>	<u>1,907,635</u>
Total Deferred Outflows of Resources	<u>\$1,170,649</u>	<u>\$4,090,668</u>	<u>\$5,261,317</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$81,694	\$81,694
Net difference between projected and actual earnings on pension plan investments	115,007	922,370	1,037,377
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>89,654</u>	<u>89,654</u>
Total Deferred Inflows of Resources	<u>\$115,007</u>	<u>\$1,093,718</u>	<u>\$1,208,725</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

\$1,907,635 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2021	\$555,810	\$1,261,038	\$1,816,848
2022	(158,417)	307,764	149,347
2023	(7,653)	(1,559)	(9,212)
2024	65,222	122,752	187,974
Total	\$454,962	\$1,689,995	\$2,144,957

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$12,555,521	\$8,959,542	\$5,943,863

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

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

Actuarial assumptions used in the July 1, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

\* Target weights will be phased in over a 24-month period concluding on July1, 2019.

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$27,579,589	\$18,872,181	\$11,500,913

**B. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2020, five members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS**

See Note 11 for a description of the net OPEB liability.

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

**Health Care Plan Description** - The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2020, the Educational Service Center's surcharge obligation was \$66,489.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$66,489 for fiscal year 2020. Of this amount, \$66,489 is reported as an intergovernmental payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB liability (asset) was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

	<u>SERS</u>	<u>STRS</u>	
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.14776180%	0.08486673%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.15325570%</u>	<u>0.08533888%</u>	
Change in Proportionate Share	<u>0.00549390%</u>	<u>0.00047215%</u>	
			<u>Total</u>
Proportionate Share of the:			
Net OPEB Liability	\$3,854,060	\$0	\$3,854,060
Net OPEB (Asset)	\$0	(\$1,413,416)	(\$1,413,416)
OPEB Expense	\$248,434	(\$420,034)	(\$171,600)

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$56,574	\$128,137	\$184,711
Changes of assumptions	281,496	29,710	311,206
Net difference between projected and actual earnings on pension plan investments	9,251	0	9,251
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	351,063	101,792	452,855
School District contributions subsequent to the measurement date	<u>66,489</u>	<u>0</u>	<u>66,489</u>
Total Deferred Outflows of Resources	<u>\$764,873</u>	<u>\$259,639</u>	<u>\$1,024,512</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$846,710	\$71,909	\$918,619
Changes of assumptions	215,970	1,549,646	1,765,616
Net difference between projected and actual earnings on OPEB plan investments	0	88,773	88,773
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>23,089</u>	<u>23,089</u>
Total Deferred Inflows of Resources	<u>\$1,062,680</u>	<u>\$1,733,417</u>	<u>\$2,796,097</u>

\$66,489 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2021	(\$111,813)	(\$324,697)	(\$436,510)
2022	(50,602)	(324,697)	(375,299)
2023	(47,886)	(289,119)	(337,005)
2024	(48,327)	(276,638)	(324,965)
2025	(67,768)	(263,150)	(330,918)
Thereafter	<u>(37,900)</u>	<u>4,523</u>	<u>(33,377)</u>
Total	<u>(\$364,296)</u>	<u>(\$1,473,778)</u>	<u>(\$1,838,074)</u>

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented below:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption	
Medicare	5.25 to 4.75 percent
Pre-Medicare	7.00 to 4.75 percent

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease <u>(2.22%)</u>	Current Discount Rate <u>(3.22%)</u>	1% Increase <u>(4.22%)</u>
School District's proportionate share of the net OPEB liability	\$4,678,096	\$3,854,060	\$3,198,852

  

	1% Decrease <u>(6.00 % decreasing to 3.75%)</u>	Current Trend Rate <u>(7.00 % decreasing to 4.75%)</u>	1% Increase <u>(8.00 % decreasing to 5.75%)</u>
School District's proportionate share of the net OPEB liability	\$3,087,882	\$3,854,060	\$4,870,590

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

Since the prior measurement date, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2019.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School District's proportionate share of the net OPEB asset	(\$1,206,070)	(\$1,413,416)	(\$1,587,747)

  

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net OPEB asset	(\$1,602,750)	(\$1,413,416)	(\$1,181,530)

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for employees working 182 days to 191 days, 192 days for employees working 192 days to 201 days, and 202 days for employees working 202 days. Upon retirement, payment is made for accrued, but unused sick leave credit to a maximum of 40 days for employees working 182 to 191 days and 45 days for employees working 192 days or more.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**B. Insurance Benefits**

The Educational Service Center provides medical/surgical insurance through Medical Mutual of Ohio for all eligible employees. The Educational Service Center pays between 80 to 100 percent of the cost of both the individual plans and the monthly family coverage premiums, depending on the plan selected by the employee. Premiums are paid from the same funds that pay the employees' salaries.

The Educational Service Center pays the total cost for life and dental insurance for its employees. Life insurance is provided through SCS Life, and dental insurance is provided through Coresource.

**NOTE 14 - OPERATING LEASE**

The Educational Service Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of six years. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Educational Service Center's financial statements. The following is a schedule by fiscal years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2020:

Fiscal Year Ending June 30,	Total
<u>2021</u>	<u>\$19,401</u>

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2020 were as follows:

	<u>Outstanding 6/30/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2020</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Net Pension Liability:					
STRS	\$18,660,288	\$211,893	\$0	\$18,872,181	\$0
SERS	8,364,079	595,463	0	8,959,542	0
Total Net Pension Liability	<u>27,024,367</u>	<u>807,356</u>	<u>0</u>	<u>27,831,723</u>	<u>0</u>
Net OPEB Liability - SERS	<u>4,099,311</u>	<u>0</u>	<u>245,251</u>	<u>3,854,060</u>	<u>0</u>
Sick Leave Benefits Payable	<u>1,457,992</u>	<u>79,715</u>	<u>110,956</u>	<u>1,426,751</u>	<u>37,356</u>
Total Governmental Activities Long Term Liabilities	<u>\$32,581,670</u>	<u>\$887,071</u>	<u>\$356,207</u>	<u>\$33,112,534</u>	<u>\$37,356</u>

Compensated absences will be paid from the General Fund. There are no repayment schedules for the net pension and the net OPEB liabilities. However, employer pension and OPEB contributions are made from the following funds: General Fund, and Public School Preschool, Alternative Education, State Support Team, IDEA-B, IDEA Preschool, and 21<sup>st</sup> Century Collaborative Special Revenue Funds. For additional information related to the net pension and net OPEB liabilities, see Notes 11 and 12.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Ohio Mid-Eastern Regional Education Service Agency Information Technology Center  
Regional Council of Governments**

The Educational Service Center is a participant in the Ohio Mid-Eastern Regional Education Service Agency Information Technology Center Regional Council of Governments (OME-RESA). OME-RESA was created as a separate regional council of governments pursuant to State statutes. OME-RESA operates under the direction of a board comprised of a representative from each participating school district. The board exercised total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designing management. Each participant's control is limited to its representation on the board. OMERESA provides information technology and internet access to member districts, as well as cooperative purchasing programs.

During fiscal year 2020, the amount paid to OME-RESA from the Educational Service Center was \$19,327 for cooperative purchasing, technology, internet access, financial accounting services, and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

**B. Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 Educational Service Centers and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Educational Service Center membership fees were \$325 during fiscal year 2020. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

**C. Ohio Coalition for Equity and Adequacy of School Funding**

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of governments established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The Center's membership fee was \$1,000 for fiscal year 2020. The Center serves as the fiscal agent of the Coalition and financial activity of the Coalition is reported as a custodial fund as discussed in Note 20.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 17 - INSURANCE PURCHASING POOLS**

**A. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Schools of Ohio Risk Sharing Authority**

The Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance purchasing pool under the authority of Ohio Revised Code 2744. Ninety-one school districts, educational service centers, and joint vocational school districts participate in the SORSA. SORSA is governed by a body elected by members. Members agree to jointly participate in coverages of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance, and public officials' errors and omissions liability insurance.

**C. Ohio School Benefits Cooperative**

The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool composed of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. On October 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2020.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**B. Litigation**

The Educational Service Center is not currently party to litigation.

**NOTE 19 - SIGNIFICANT COMMITMENTS**

Encumbrances are commitments to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<u>Governmental Funds</u>	
General Fund	\$128,553
Special Education Fund	54,944
Striving Readers Grant Fund	256,881
Other Nonmajor Governmental Funds	<u>151,449</u>
Total All Funds	<u><u>\$591,827</u></u>

**NOTE 20 – EXTERNAL INVESTMENT POOL**

Effective June 25, 2004, the Educational Service Center began to serve as fiscal agent for the Ohio Coalition of Equity and Adequacy of School Funding (the Coalition), a legally separate entity. The Educational Service Center pooled the moneys of the Coalition with its own for investment purposes. Participation in the pool is voluntary. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant will be allocated a pro rata share of each investment at fair value, along with the pro rata share of the interest that it earns. Condensed financial information for the investment pool follows:

Statement of Net Position  
June 30, 2020

<b><i>Assets:</i></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,926,940</u>
<b><i>Net Position Held in Trust for Pool Participants:</i></b>	
Internal Portion	\$3,632,499
External Portion	<u>294,441</u>
<b><i>Total Net Position Held in Trust for Pool Participants</i></b>	<u><u>\$3,926,940</u></u>

Statement of Changes in Net Position  
For the Fiscal Year Ended June 30, 2020

<b><i>Additions:</i></b>	
Interest Income	<u>\$60,253</u>
<b><i>Deductions:</i></b>	
Distributions paid to Participants	(60,253)
Capital Transactions	<u>346,834</u>
<b><i>Total Deductions</i></b>	<u>286,581</u>
Total Increase in Net Position	346,834
<b><i>Net Position at Beginning of Year</i></b>	<u>3,580,106</u>
<b><i>Net Position at End of Year</i></b>	<u><u>\$3,926,940</u></u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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Deposits

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

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

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

**NOTE 21 – COVID-19**

The United States 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 continuing emergency measures may impact subsequent periods of the Educational Service Center. The Educational Service Center's investment portfolio and the investments of the pension and other employee benefit plan in which the Educational Service Center's participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Seven Fiscal Years (1)\**

	2020	2019	2018
Educational Service Center's Proportion of the Net Pension Liability	0.14974560%	0.14604170%	0.13558160%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$8,959,542	\$8,364,079	\$8,100,701
Educational Service Center's Covered Payroll	\$5,167,067	\$4,935,644	\$4,390,600
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	173.40%	169.46%	184.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.85%	71.36%	69.50%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each fiscal year.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2017	2016	2015	2014
0.12755800%	0.12335640%	0.12256700%	0.12256700%
\$9,336,068	\$7,038,836	\$6,203,046	\$7,288,666
\$3,996,229	\$3,759,621	\$3,592,633	\$3,093,411
233.62%	187.22%	172.66%	235.62%
62.98%	69.16%	71.70%	65.52%

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Seven Fiscal Years (1)\**

	2020	2019	2018
Educational Service Center's Proportion of the Net Pension Liability	0.08533888%	0.08486673%	0.08153057%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$18,872,181	\$18,660,288	\$19,367,762
Educational Service Center's Covered Payroll	\$10,121,814	\$9,723,064	\$9,016,386
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	186.45%	191.92%	214.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.40%	77.30%	75.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each fiscal year.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2017	2016	2015	2014
0.08220609%	0.08196196%	0.07795173%	0.08196196%
\$27,543,634	\$22,651,888	\$18,960,558	\$22,585,693
\$8,603,150	\$8,690,129	\$8,127,986	\$7,579,840
320.16%	260.66%	233.27%	297.97%
66.80%	72.10%	74.70%	69.30%

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center 's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Four Fiscal Years (1)\**

	2020	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.15325570%	0.14776180%	0.13770110%	0.12918260%
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$3,854,060	\$4,099,311	\$3,695,536	\$3,682,182
Educational Service Center's Covered Payroll	\$5,167,067	\$4,935,644	\$4,390,600	\$3,996,229
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	74.59%	83.06%	84.17%	92.14%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	15.57%	13.57%	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each fiscal year.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information



**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)*  
*State Teachers Retirement System of Ohio*  
*Last Four Fiscal Years (1)\**

	2020	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.08533888%	0.08486673%	0.08153057%	0.08228609%
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$1,413,416)	(\$1,363,721)	\$3,181,022	\$4,400,681
Educational Service Center's Covered Payroll	\$10,121,814	\$9,723,064	\$9,016,386	\$8,603,150
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-13.96%	-14.03%	35.28%	51.15%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	174.70%	176.00%	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each fiscal year.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2020	2019	2018	2017
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$600,680	\$697,554	\$666,312	\$614,684
Contributions in Relation to the Contractually Required Contribution	(600,680)	(697,554)	(666,312)	(614,684)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$4,290,571	\$5,167,067	\$4,935,644	\$4,390,600
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	\$66,489	\$118,421	\$102,740	\$75,592
Contributions in Relation to the Contractually Required Contribution	(66,489)	(118,421)	(102,740)	(75,592)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>1.55%</u>	<u>2.29%</u>	<u>2.08%</u>	<u>1.72%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.55%</u>	<u>15.79%</u>	<u>15.58%</u>	<u>15.72%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2016	2015	2014	2013	2012	2011
\$559,472	\$495,518	\$497,939	\$428,128	\$312,685	\$206,740
(559,472)	(495,518)	(497,939)	(428,128)	(312,685)	(206,740)
\$0	\$0	\$0	\$0	\$0	\$0
\$3,996,229	\$3,759,621	\$3,592,633	\$3,093,411	\$2,324,796	\$1,644,709
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%
\$65,009	\$94,333	\$65,716	\$59,455	\$56,907	\$48,697
(65,009)	(94,333)	(65,716)	(59,455)	(56,907)	(48,697)
\$0	\$0	\$0	\$0	\$0	\$0
1.63%	2.51%	1.83%	1.92%	2.45%	2.96%
15.63%	15.69%	15.69%	15.76%	15.90%	15.53%

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2020	2019	2018	2017
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$1,306,955	\$1,417,054	\$1,361,229	\$1,262,294
Contributions in Relation to the Contractually Required Contribution	<u>(1,306,955)</u>	<u>(1,417,054)</u>	<u>(1,361,229)</u>	<u>(1,262,294)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll	\$9,335,393	\$10,121,814	\$9,723,064	\$9,016,386
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability (Asset)</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

See accompanying notes to the required supplementary information

2016	2015	2014	2013	2012	2011
\$1,204,441	\$1,216,618	\$1,056,638	\$985,379	\$792,671	\$608,551
(1,204,441)	(1,216,618)	(1,056,638)	(985,379)	(792,671)	(608,551)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$8,603,150	\$8,690,129	\$8,127,986	\$7,579,840	\$6,097,466	\$4,681,163
<u>14.00%</u>	<u>14.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$0	\$0	\$81,280	\$75,799	\$60,974	\$46,812
<u>0</u>	<u>0</u>	<u>(81,280)</u>	<u>(75,799)</u>	<u>(60,974)</u>	<u>(46,812)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.00%</u>	<u>0.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2020*

**Net Pension Liability**

**Changes in Assumptions – SERS**

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**Changes in Assumptions - STRS**

Beginning with fiscal year 2018, amounts reported incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Beginning with fiscal year 2018, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuity Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward

## Muskingum Valley Educational Service Center, Ohio

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2020

generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

### Net OPEB Liability

#### Changes in Assumptions – SERS

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2020	3.13 percent
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2020	3.22 percent
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

#### Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45.

#### Changes in Benefit Terms – STRS OPEB

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for

**Muskingum Valley Educational Service Center, Ohio**

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2020*

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certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2020, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.



## **Supplemental Information**

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2020*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$871,258	\$871,258	\$843,155	(\$28,103)
Investment Earnings	45,000	45,000	39,452	(5,548)
Tuition and Fees	12,376,385	12,376,385	12,056,909	(319,476)
Charges for Services	5,131,739	5,134,482	5,334,265	199,783
Extracurricular Activities	4,000	7,500	11,091	3,591
Rent	600	600	0	(600)
Gifts and Donations	5,342	5,842	5,223	(619)
Miscellaneous	8,180	8,180	8,218	38
<b>Total Revenues</b>	<b>18,442,504</b>	<b>18,449,247</b>	<b>18,298,313</b>	<b>(150,934)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	619,993	619,993	597,554	22,439
Special	7,801,012	7,804,012	7,712,010	92,002
Student Intervention Services	1,191,919	1,191,919	915,245	276,674
Support Services:				
Pupils	4,236,096	4,236,096	4,346,840	(110,744)
Instructional Staff	2,605,051	2,605,051	2,363,373	241,678
Board of Education	34,660	34,660	32,278	2,382
Administration	1,245,007	1,248,250	941,837	306,413
Fiscal	465,223	465,223	513,955	(48,732)
Operation and Maintenance of Plant	101,412	101,412	80,764	20,648
Pupil Transportation	150	150	249	(99)
Central	637,749	637,749	619,652	18,097
Operation of Non-Instructional Services:				
Community Services	92,372	92,372	67,913	24,459
Extracurricular Activities	28,164	28,164	23,235	4,929
<b>Total Expenditures</b>	<b>19,058,808</b>	<b>19,065,051</b>	<b>18,214,905</b>	<b>850,146</b>
Excess of Revenues Over (Under) Expenditures	(616,304)	(615,804)	83,408	699,212
<b>Other Financing Sources</b>				
Refund of Prior Year Expenditures	674,197	849,551	182,271	(667,280)
Net Change in Fund Balances	57,893	233,747	265,679	31,932
Fund Balance at Beginning of Year	3,210,194	3,210,194	3,210,194	0
Prior Year Encumbrances Appropriated	115,978	115,978	115,978	0
Fund Balance at End of Year	<u>\$3,384,065</u>	<u>\$3,559,919</u>	<u>\$3,591,851</u>	<u>\$31,932</u>

See notes to Supplemental Information

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Special Education Special Revenue Fund*  
*For the Fiscal Year Ended June 30, 2020*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$1,559,728	\$1,559,728	\$1,160,018	(\$399,710)
<b>Expenditures</b>				
Current:				
Support Services:				
Instructional Staff	1,299,395	1,285,895	1,080,254	205,641
Administration	109,159	109,159	95,301	13,858
Fiscal	53,327	53,327	52,148	1,179
Operation and Maintenance of Plant	0	13,500	11,667	1,833
Total Expenditures	1,461,881	1,461,881	1,239,370	222,511
Net Change in Fund Balances	97,847	97,847	(79,352)	(177,199)
Fund Balance (Deficit) at Beginning of Year	(136,091)	(136,091)	(136,091)	0
Prior Year Encumbrances Appropriated	38,244	38,244	38,244	0
Fund Balance (Deficit) at End of Year	\$0	\$0	(\$177,199)	(\$177,199)

See Notes to Supplemental Information

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Striving Readers Grant Special Revenue Fund*  
*For the Fiscal Year Ended June 30, 2020*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Intergovernmental	\$488,891	\$1,209,697	\$394,534	(\$815,163)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	45,619	246,280	201,472	44,808
Support Services:				
Instructional Staff	344,422	786,768	468,293	318,475
Pupil Transportation	21,961	47,167	14,935	32,232
Central	38,926	91,519	11,050	80,469
Total Expenditures	450,928	1,171,734	695,750	475,984
Net Change in Fund Balances	37,963	37,963	(301,216)	(339,179)
Fund Balance at Beginning of Year	(342,003)	(342,003)	(342,003)	0
Prior Year Encumbrances Appropriated	304,040	304,040	304,040	0
Fund Balance at End of Year	<u>\$0</u>	<u>\$0</u>	<u>(\$339,179)</u>	<u>(\$339,179)</u>

See Notes to Supplemental Information

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 1 - BUDGETARY PROCESS**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed. The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

**A. Appropriations**

The annual appropriation resolution is enacted by the Educational Service Center at the fund level of expenditures, which are the levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Educational Service Center. The Educational Service Center may pass supplemental appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**B. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

**C. Budgetary Basis of Accounting**

The Educational Service Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP).

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or unassigned fund balance (GAAP basis).

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2019*

4. Reclassification of excess of expenditures over revenues into financial statement fund types represents the perspective difference between GAAP basis statements and budget basis statements due to the combining of additional funds (Public School Support) on a GAAP basis but not including them on the budget basis.
5. Prepaid items and negative cash advances to (from) other funds are reported on the balance sheet (GAAP basis) but not on the budget basis.
6. Fair market value changes are reported on the “Statement of Revenues, Expenditures, and Changes in Fund Balance” (GAAP Basis), but not on a budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

	Net Change in Fund Balance		
	General Fund	Special Education Fund	Striving Readers Grant
	<u>          </u>	<u>          </u>	<u>          </u>
GAAP Basis	\$59,442	\$9,376	(\$42,434)
Net Adjustment for:			
Revenue Accruals	673,911	(26,512)	0
Expenditure Accruals	(742,581)	117,052	80,397
Fair Market Value:			
End of Fiscal Year	(22,288)	0	0
Prepaid Items:			
Beginning of Fiscal Year	272,818	4,141	0
End of Fiscal Year	(224,530)	(6,210)	0
Negative Cash Advances to (from) Other Funds	458,135	(122,255)	(82,298)
To reclassify excess of revenues over expenditures into financial statement fund types	(80,675)	0	0
Encumbrances	<u>(128,553)</u>	<u>(54,944)</u>	<u>(256,881)</u>
Budget Basis	<u><u>\$265,679</u></u>	<u><u>(\$79,352)</u></u>	<u><u>(\$301,216)</u></u>

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	2020	\$22,482
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	2019	144,844
		2020	<u>1,039,582</u>
Total Special Education - Grants to States			<u>1,184,426</u>
Special Education - Preschool Grants	84.173	2019	23,913
		2020	<u>156,771</u>
Total Special Education - Preschool Grants			<u>180,684</u>
Total Special Education Cluster (IDEA)			1,365,110
Twenty - First Century Community Learning Centers	84.287	2019	26,211
		2020	<u>624,681</u>
Total Twenty - First Century Community Learning Centers			<u>650,892</u>
Special Education - State Personnel Development Grant Program	84.323	2019	435
Striving Readers Comprehensive Literacy Program	84.371	2019	81,314
		2020	<u>357,555</u>
Total Striving Readers Comprehensive Literacy Program			<u>438,869</u>
COVID-19 Governors Emergency Education Relief	84.425	2020	<u>5,327</u>
Total U.S. Department of Education			<u>2,483,115</u>
<b>Total Expenditures of Federal Awards</b>			<b><u><u>\$2,483,115</u></u></b>

*The accompanying notes are an integral part of this Schedule.*

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2020**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Muskingum Valley Educational Service Center (the Educational Service Center) under programs of the federal government for the year ended June 30, 2020. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center, it is not intended to and does not present the financial position or changes in net position of the Educational Service Center.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

The Educational Service Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE D - SUBRECIPIENTS**

The Educational Service Center did not provide funds to subrecipients during the audit period.



# OHIO AUDITOR OF STATE KEITH FABER



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

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

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 governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 16, 2021, wherein we noted the School District adopted new accounting guidance in Governmental Accounting Standards Board Statement (GASB) No. 84, *Fiduciary Activities*. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the School District.

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

As part of our financial statement audit, we considered the Educational Service Center's internal control over financial reporting (internal control) as a basis for designing 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 Educational Service Center'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 Educational Service Center'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 Educational Service Center'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 financial statements. 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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

March 16, 2021

# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Muskingum Valley Educational Service Center's, Muskingum County, Ohio (the Educational Service Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Muskingum Valley Educational Service Center's major federal program for the year ended June 30, 2020. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

### ***Management's Responsibility***

The Educational Service Center's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to opine on the Educational Service Center's compliance for the Educational Service Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Educational Service Center's major program. However, our audit does not provide a legal determination of the Educational Service Center's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Muskingum Valley Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2020.

***Report on Internal Control Over Compliance***

The Educational Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Educational Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

March 16, 2021

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2020**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster (IDEA) – CFDA Nos. 84.027 and 84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR § 200.520?</b>	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

# OHIO AUDITOR OF STATE KEITH FABER



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER**

**MUSKINGUM 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 3/30/2021**

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](http://www.ohioauditor.gov)