



**Auditor of State
Betty Montgomery**

**WEST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

West Muskingum Local School District
Muskingum County
4880 West Pike
Zanesville, Ohio 43701

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 West Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 12, 2004

West Muskingum Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

The discussion and analysis of the West Muskingum Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District'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 School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities increased \$1,108,643.
- General revenues accounted for \$11,743,902 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,732,486, 19 percent of total revenues of \$14,476,388.
- Total assets of governmental activities increased \$26,127,138 primarily due to increases in cash and cash equivalents from unspent bond proceeds.
- The School District had \$13,367,745 in expenses related to governmental activities; only \$2,732,486 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$11,743,902 provided for all of these activities.
- The School District has three major funds; the General Fund, Debt Service Fund, and the Classroom Facilities ELPP Capital Projects Fund. The General Fund had \$11,361,179 in revenues and \$10,931,791 in expenditures. The General Fund's balance increased \$245,713. The Debt Service had \$1,239,094 in revenues and \$277,588 in expenditures. The Debt Service Fund's balance increased \$979,440. The Classroom Facilities ELPP Capital Projects Fund had \$364,021 in revenues and \$1,151,392 in expenditures. The Classroom Facilities ELPP Capital Projects Fund's balance increased \$23,569,937.

Using this Annual Financial Report

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 West Muskingum Local School District 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 Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District'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 School District's most significant funds with all other non-major funds presented in total in one column.

West Muskingum Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2002?" The Statement of Net Assets 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 year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Debt Service Fund, and the Classroom Facilities ELPP Capital Projects Fund.

Governmental Funds Most of the School District'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 School District'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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

West Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets for 2003 compared to 2002.

Table I
Net Assets

| | <u>Governmental Activities</u> | |
|---|--------------------------------|--------------------|
| | <u>2003</u> | <u>2002</u> |
| Assets | | |
| Current and Other Assets | \$35,617,671 | \$10,113,619 |
| Capital Assets | <u>2,434,618</u> | <u>1,811,532</u> |
| Total Assets | <u>38,052,289</u> | <u>11,925,151</u> |
| Liabilities | | |
| Long-Term Liabilities | (25,148,970) | (795,098) |
| Other Liabilities | <u>(5,461,959)</u> | <u>(4,797,336)</u> |
| Total Liabilities | <u>(30,610,929)</u> | <u>(5,592,434)</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 1,734,002 | 1,716,426 |
| Restricted | 2,368,954 | 1,172,789 |
| Unrestricted | <u>3,338,404</u> | <u>3,443,502</u> |
| Total Net Assets | <u>\$7,441,360</u> | <u>\$6,332,717</u> |

Total assets increased \$26,127,138. The majority of the increase was due to cash, cash equivalents, and investments increasing \$23,992,673 from unspent bond proceeds.

Total liabilities increased \$25,018,495. Bonds payable and accrued interest accounted for \$24,458,011 of this increase. There were also slight increases in accrued wages, intergovernmental payables, deferred revenues and other liabilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003, and comparisons to fiscal year 2002.

West Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Table 2
Changes in Net Assets

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | 2003 | 2002 |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$548,838 | \$562,491 |
| Operating Grants, Contributions and Interest | 1,882,073 | 1,019,415 |
| Capital Grants and Contributions | 301,575 | 112,720 |
| | <u>2,732,486</u> | <u>1,694,626</u> |
| General Revenue | | |
| Property Taxes | 6,507,973 | 5,209,267 |
| Grants and Entitlements | 4,998,359 | 5,199,298 |
| Investment Earnings | 91,294 | 168,510 |
| Other Revenues | 146,276 | 18,307 |
| | <u>11,743,902</u> | <u>10,595,382</u> |
| Total Revenues | <u>14,476,388</u> | <u>12,290,008</u> |
| Program Expenses | | |
| Instruction | | |
| Regular | 5,463,984 | 4,890,549 |
| Special | 1,499,775 | 1,345,397 |
| Vocational | 284,159 | 302,770 |
| Support Services | | |
| Pupil | 261,009 | 263,656 |
| Instructional Staff | 949,979 | 716,069 |
| Board of Education | 27,778 | 17,611 |
| Administration | 1,250,808 | 1,107,464 |
| Fiscal | 328,703 | 276,846 |
| Operation and Maintenance of Plant | 1,108,244 | 953,612 |
| Pupil Transportation | 740,044 | 805,303 |
| Central | 69,321 | 72,700 |
| Operation of Non-Instructional Services | | |
| Food Service Operations | 538,366 | 516,059 |
| Other | 18,465 | 8,110 |
| Extracurricular Activities | 252,238 | 247,495 |
| Interest and Fiscal Charges | 574,872 | 13,760 |
| Total Expenses | <u>13,367,745</u> | <u>11,537,401</u> |
| Increase in Net Assets | <u>\$1,108,643</u> | <u>\$752,607</u> |

The School District has maintained a stable financial position from fiscal year 1994 through fiscal year 2003, and has increased its operating fund cash balance carry-over for the last six fiscal years (1998-2003). This was accomplished by the passage of a \$600,000 emergency operating levy in November 1993 and tight fiscal management, often at the expense of educational programs and resources such as textbooks. The \$600,000 emergency levy was renewed in May 1998 and will expire December 30, 2003.

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental affect on the School District. While the School District operates a very tight budget, revenue sources are not projected to keep pace with expenditures. In addition, the passage of any future levies would cause the School District to lose State funding through GAP Aid. Enrollment also is a factor in the finances of the School District. The School District lost approximately \$500,000 in outgoing open enrollment in fiscal year 2003 and currently does not accept open enrollment students.

West Muskingum Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

In November of 2002, the residents of the School District passed a \$23,950,000 bond levy as part of the Expedited Local Partnership Program. The School District will build a new high school and renovate the middle school during phase one and build two new elementary buildings during phase two. Phase one construction costs will be funded entirely by local monies. Phase two monies will be funded through State monies which the School District is eligible for in 2007, 2008, or 2009. The total construction project is estimated at \$39,100,206.

Instructional programs comprise approximately 54 percent of total governmental program expenses. Of the instructional expenses, approximately 75 percent is for regular instruction, 21 percent for special instruction, and 4 percent for vocational instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings 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 tax revenue and unrestricted entitlements.

**Table 3
Governmental Activities**

| | 2003 Total Cost of Services | 2003 Net Cost of Services | 2002 Total Cost of Services | 2002 Net Cost of Services |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$5,463,984 | \$5,274,883 | \$4,890,549 | \$4,672,252 |
| Special | 1,499,775 | 880,314 | 1,345,397 | 891,451 |
| Vocational | 284,159 | 240,730 | 302,770 | 252,927 |
| Support Services: | | | | |
| Pupil | 261,009 | 246,844 | 263,656 | 256,753 |
| Instructional Staff | 949,979 | 591,638 | 716,069 | 471,231 |
| Board of Education | 27,778 | 27,778 | 17,611 | 17,611 |
| Administration | 1,250,808 | 1,141,906 | 1,107,464 | 1,032,276 |
| Fiscal | 328,703 | 114,633 | 276,846 | 276,846 |
| Operation and Maintenance of Plant | 1,108,244 | 1,063,453 | 953,612 | 952,127 |
| Pupil Transportation | 740,044 | 239,492 | 805,303 | 765,075 |
| Central | 69,321 | 38,460 | 72,700 | 56,288 |
| Operation of Non-Instructional Services | | | | |
| Food Service Operations | 538,366 | 34,067 | 516,059 | 20,280 |
| Other | 18,465 | (1,294) | 8,110 | 640 |
| Extracurricular Activities | 252,238 | 167,483 | 247,495 | 163,258 |
| Interest and Fiscal Charges | 574,872 | 574,872 | 13,760 | 13,760 |
| Totals | \$13,367,745 | \$10,635,259 | \$11,537,401 | \$9,842,775 |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 80 percent of instruction activities are supported through taxes and other general revenues.

West Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,453,724 and expenditures of \$13,921,203. As previously discussed, the School District remains financially stable.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2003, the School District amended its general fund appropriations although none were significant.

Budget basis revenue was \$11,291,611 compared to final estimates of \$10,503,094. Of this \$788,517 difference, most was due to conservative tax estimates, based on the County Auditor's Certification, and conservative state funding estimates.

The School District's ending unobligated general fund balance was \$2,619,234.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$2,434,618 invested in land, buildings, furniture and equipment and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

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

| | <u>Government Activities</u> | |
|----------------------------|----------------------------------|----------------------------------|
| | <u>2003</u> | <u>2002</u> |
| Land and Land Improvements | \$196,912 | \$99,175 |
| Construction in Progress | 146,480 | 0 |
| Buildings and Improvements | 1,564,231 | 1,260,278 |
| Furniture and Equipment | 332,362 | 347,109 |
| Vehicles | 194,633 | 104,970 |
| Totals | <u><u>\$2,434,618</u></u> | <u><u>\$1,811,532</u></u> |

West Muskingum Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

During fiscal year 2003, the School District purchased various land, buildings, furniture and equipment and vehicles. See Note 8 for additional information regarding capital assets.

Debt

At June 30, 2003, the School District had \$24,370,179 in 2003 general obligation bonds outstanding, \$415,187 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2031. The School District had capital leases outstanding at June 30, 2003 in the amount of \$79,136 with \$23,041 due in one year. See Note 15 for more detailed information of the School District's debt.

Set-asides

For fiscal year 2003, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2003, this amounted to \$250,569 for each set aside. For fiscal year 2003, the School District had qualifying disbursements or offsets exceeding the \$250,569 requirement for textbooks and capital maintenance.

Economic Factors

While the District ended fiscal year 2003 with a positive cash flow, the school district is currently in a precarious financial position. The districts emergency levy will expire at the end of calendar year 2003 and will not be renewed. The funds from this levy are currently being replaced by GAP Aid. However, cuts to school funding as a result of House Bill 95 has had a negative impact on the districts financial position. While GAP Aid can be used to offset the loss of funds from the non-renewal of the emergency levy, it cannot be used to offset revenue reductions from the State. The district is currently considering cutting programs to maintain a balanced budget.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Tammira S. Miller, Treasurer/CFO at West Muskingum Local School District, 4880 West Pike, Zanesville, Ohio 43701. You may also E-mail the treasurer at tmiller@laca.org.

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West Muskingum Local School District, Ohio

Statement of Net Assets

June 30, 2003

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$5,120,164 |
| Accounts Receivable | 4,133 |
| Revenue in Lieu of Taxes Receivable | 17,088 |
| Intergovernmental Receivable | 183,530 |
| Prepaid Items | 8,213 |
| Inventory Held for Resale | 19,394 |
| Materials and Supplies Inventory | 14,668 |
| Property and Other Local Taxes Receivable | 6,600,763 |
| Investments | 23,378,435 |
| Deferred Charges | 271,283 |
| Nondepreciable Capital Assets | 343,392 |
| Depreciable Capital Assets, Net | <u>2,091,226</u> |
| <i>Total Assets</i> | <u>38,052,289</u> |
| Liabilities | |
| Accounts Payable | 13,215 |
| Accrued Wages and Benefits | 1,090,757 |
| Matured Compensated Absences | 4,968 |
| Contracts Payable | 15,350 |
| Accrued Interest Payable | 87,832 |
| Deferred Revenue | 3,773,885 |
| Intergovernmental Payable | 286,264 |
| Claims Payable | 189,688 |
| Long-Term Liabilities: | |
| Due Within One Year | 540,992 |
| Due In More Than One Year | <u>24,607,978</u> |
| <i>Total Liabilities</i> | <u>30,610,929</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 1,734,002 |
| Restricted for: | |
| Capital Projects | 1,033,294 |
| Debt Service | 964,385 |
| Other Purposes | 371,275 |
| Unrestricted | <u>3,338,404</u> |
| <i>Total Net Assets</i> | <u><u>\$7,441,360</u></u> |

See accompanying notes to the basic financial statements

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West Muskingum Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2003

| | Expenses | Program Revenues | | | Net (Expense) |
|--|---------------------|----------------------|---|---|-----------------------------------|
| | | Charges for Services | Operating Grants, Contributions, and Interest | Capital Grants, Contributions, and Interest | Revenue and Changes in Net Assets |
| | | | | | Governmental Activities |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$5,463,984 | \$59,226 | \$118,514 | \$11,361 | (\$5,274,883) |
| Special | 1,499,775 | 17,966 | 601,106 | 389 | (880,314) |
| Vocational | 284,159 | 0 | 43,429 | 0 | (240,730) |
| Support Services: | | | | | |
| Pupil | 261,009 | 0 | 14,165 | 0 | (246,844) |
| Instructional Staff | 949,979 | 0 | 356,928 | 1,413 | (591,638) |
| Board of Education | 27,778 | 0 | 0 | 0 | (27,778) |
| Administration | 1,250,808 | 55,525 | 53,377 | 0 | (1,141,906) |
| Fiscal | 328,703 | 791 | 164 | 213,115 | (114,633) |
| Operation and Maintenance of Plant | 1,108,244 | 8,547 | 0 | 36,244 | (1,063,453) |
| Pupil Transportation | 740,044 | 0 | 462,675 | 37,877 | (239,492) |
| Central | 69,321 | 0 | 29,685 | 1,176 | (38,460) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 538,366 | 326,740 | 177,559 | 0 | (34,067) |
| Other | 18,465 | 0 | 19,759 | 0 | 1,294 |
| Extracurricular Activities | 252,238 | 80,043 | 4,712 | 0 | (167,483) |
| Interest and Fiscal Charges | 574,872 | 0 | 0 | 0 | (574,872) |
| Totals | \$13,367,745 | \$548,838 | \$1,882,073 | \$301,575 | (10,635,259) |

General Revenues

| | |
|---|--------------------|
| Property Taxes Levied for: | |
| General Purposes | 5,273,436 |
| Debt Service | 1,234,537 |
| Gain on Sale of Capital Asset | 3,761 |
| Payment in Lieu of Taxes | 17,088 |
| Grants and Entitlements not Restricted to Specific Programs | 4,998,359 |
| Increase in Fair Value of Investments | 116,294 |
| Investment Earnings | 91,294 |
| Miscellaneous | 9,133 |
| Total General Revenues | 11,743,902 |
| <i>Change in Net Assets</i> | 1,108,643 |
| <i>Net Assets Beginning of Year</i> | 6,332,717 |
| <i>Net Assets End of Year</i> | \$7,441,360 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2003

| | General | Debt Service | Classroom Facilitites ELPP Project | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|---|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,771,824 | \$478,498 | \$206,852 | \$1,167,858 | \$4,625,032 |
| Accounts Receivable | 2,387 | 0 | 0 | 1,746 | 4,133 |
| Revenue in Lieu of Taxes Receivable | 17,088 | 0 | 0 | 0 | 17,088 |
| Interfund Receivable | 3,000 | 0 | 0 | 347 | 3,347 |
| Intergovernmental Receivable | 1,607 | 0 | 0 | 181,923 | 183,530 |
| Prepaid Items | 8,213 | 0 | 0 | 0 | 8,213 |
| Inventory Held for Resale | 0 | 0 | 0 | 19,394 | 19,394 |
| Materials and Supplies Inventory | 13,479 | 0 | 0 | 1,189 | 14,668 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 175,579 | 0 | 0 | 0 | 175,579 |
| Property and Other Local Taxes Receivable | 5,187,406 | 1,497,669 | 0 | 0 | 6,685,075 |
| Investments | 0 | 0 | 23,378,435 | 0 | 23,378,435 |
| Total Assets | \$8,180,583 | \$1,976,167 | \$23,585,287 | \$1,372,457 | \$35,114,494 |
| Liabilities | | | | | |
| Accounts Payable | \$10,723 | \$0 | \$0 | \$2,492 | \$13,215 |
| Accrued Wages and Benefits | 964,710 | 0 | 0 | 126,047 | 1,090,757 |
| Matured Compensated Absences | 4,968 | 0 | 0 | 0 | 4,968 |
| Contracts Payable | 0 | 0 | 15,350 | 0 | 15,350 |
| Interfund Payable | 347 | 0 | 0 | 3,000 | 3,347 |
| Deferred Revenue | 3,344,541 | 994,910 | 0 | 28,462 | 4,367,913 |
| Intergovernmental Payable | 149,179 | 0 | 0 | 22,040 | 171,219 |
| Total Liabilities | 4,474,468 | 994,910 | 15,350 | 182,041 | 5,666,769 |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 311,714 | 0 | 2,714,166 | 41,332 | 3,067,212 |
| Reserved for Budget Stabilization | 50,193 | 0 | 0 | 0 | 50,193 |
| Reserved for Bus Purchase | 125,386 | 0 | 0 | 0 | 125,386 |
| Reserved for Property Taxes | 1,842,473 | 502,697 | 0 | 0 | 2,345,170 |
| Unreserved: | | | | | |
| Undesignated, Reported in: | | | | | |
| General Fund | 1,376,349 | 0 | 0 | 0 | 1,376,349 |
| Special Revenue Funds | 0 | 0 | 0 | 212,060 | 212,060 |
| Debt Service Fund | 0 | 478,560 | 0 | 0 | 478,560 |
| Capital Projects Funds | 0 | 0 | 20,855,771 | 937,024 | 21,792,795 |
| Total Fund Balances | 3,706,115 | 981,257 | 23,569,937 | 1,190,416 | 29,447,725 |
| Total Liabilities and Fund Balances | \$8,180,583 | \$1,976,167 | \$23,585,287 | \$1,372,457 | \$35,114,494 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

| | General | Debt Service | Classroom Facilities ELPP Project | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|------------------|--|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property and Other Local Taxes | \$5,310,266 | \$1,163,577 | \$0 | \$0 | \$6,473,843 |
| Payment in Lieu of Taxes | 17,088 | 0 | 0 | 0 | 17,088 |
| Intergovernmental | 5,774,265 | 75,517 | 0 | 1,015,154 | 6,864,936 |
| Interest | 125,041 | 0 | 247,727 | 669 | 373,437 |
| Increase in Fair Value of Investments | 0 | 0 | 116,294 | 0 | 116,294 |
| Tuition and Fees | 76,322 | 0 | 0 | 0 | 76,322 |
| Extracurricular Activities | 0 | 0 | 0 | 137,229 | 137,229 |
| Rentals | 8,547 | 0 | 0 | 0 | 8,547 |
| Charges for Services | 0 | 0 | 0 | 326,740 | 326,740 |
| Contributions and Donations | 0 | 0 | 0 | 8,000 | 8,000 |
| Miscellaneous | 49,650 | 0 | 0 | 1,638 | 51,288 |
| Total Revenues | 11,361,179 | 1,239,094 | 364,021 | 1,489,430 | 14,453,724 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 5,107,758 | 0 | 0 | 191,232 | 5,298,990 |
| Special | 1,152,483 | 0 | 0 | 297,631 | 1,450,114 |
| Vocational | 265,903 | 0 | 0 | 5,992 | 271,895 |
| Support Services: | | | | | |
| Pupils | 238,788 | 0 | 0 | 13,282 | 252,070 |
| Instructional Staff | 567,881 | 0 | 0 | 343,229 | 911,110 |
| Board of Education | 27,778 | 0 | 0 | 0 | 27,778 |
| Administration | 1,145,005 | 0 | 0 | 73,642 | 1,218,647 |
| Fiscal | 289,912 | 13,769 | 19,771 | 110 | 323,562 |
| Operation and Maintenance of Plant | 1,120,845 | 0 | 3,211 | 2,173 | 1,126,229 |
| Pupil Transportation | 782,418 | 0 | 0 | 2,822 | 785,240 |
| Central | 56,849 | 0 | 0 | 12,472 | 69,321 |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 0 | 0 | 0 | 507,342 | 507,342 |
| Other Non-Instructional Services | 0 | 0 | 0 | 18,465 | 18,465 |
| Extracurricular Activities | 140,863 | 0 | 0 | 92,040 | 232,903 |
| Capital Outlay | 1,000 | 0 | 635,830 | 0 | 636,830 |
| Debt Service: | | | | | |
| Principal Retirement | 27,321 | 0 | 0 | 0 | 27,321 |
| Interest and Fiscal Charges | 6,987 | 263,819 | 218,028 | 0 | 488,834 |
| Issuance Costs | 0 | 0 | 274,552 | 0 | 274,552 |
| Total Expenditures | 10,931,791 | 277,588 | 1,151,392 | 1,560,432 | 13,921,203 |
| Excess of Revenues Over (Under) Expenditures: | 429,388 | 961,506 | (787,371) | (71,002) | 532,521 |
| Other Financing Sources (Uses) | | | | | |
| General Obligation Bonds Issued | 0 | 0 | 23,950,000 | 0 | 23,950,000 |
| Premium on Bonds | 0 | 0 | 520,765 | 0 | 520,765 |
| Discount on Bonds | 0 | 0 | (95,523) | 0 | (95,523) |
| Proceeds from Sale of Fixed Assets | 3,761 | 0 | 0 | 0 | 3,761 |
| Inception of a Capital Lease | 11,351 | 0 | 0 | 0 | 11,351 |
| Transfers In | 0 | 17,934 | 0 | 198,787 | 216,721 |
| Transfers Out | (198,787) | 0 | (17,934) | 0 | (216,721) |
| Total Other Financing Sources (Uses) | (183,675) | 17,934 | 24,357,308 | 198,787 | 24,390,354 |
| Net Change in Fund Balances | 245,713 | 979,440 | 23,569,937 | 127,785 | 24,922,875 |
| Fund Balances Beginning of Year | 3,460,402 | 1,817 | 0 | 1,062,631 | 4,524,850 |
| Fund Balances End of Year | \$3,706,115 | \$981,257 | \$23,569,937 | \$1,190,416 | \$29,447,725 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, 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, 2003*

Net Change in Fund Balances - Total Governmental Funds \$24,922,875

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

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 outlay exceeded depreciation in the current year:

| | | |
|---------------------------|-----------|---------|
| Capital Assets Additions | 833,694 | |
| Current Year Depreciation | (210,608) | 623,086 |

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

| | | |
|-------------------|----------|--------|
| Property Taxes | 34,130 | |
| Intergovernmental | 18,520 | |
| Interest | (35,861) | 16,789 |

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability. (11,351)

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

| | | |
|------------------------------|----------|--------|
| Intergovernmental Payable | (15,088) | |
| Capital Leases Payable | 27,321 | |
| Retirement Incentive Payable | 40,000 | |
| Compensated Absences | 337 | 52,570 |

Debt proceeds, discounts, and premiums are other financing sources (uses) in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities:

| | | |
|-----------------------|--------------|--------------|
| Capital Debt Proceeds | (23,950,000) | |
| Discount | 95,523 | |
| Premium | (520,765) | (24,375,242) |

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums, discounts, and and issuance costs are reported on the statement of activities:

| | | |
|-----------------------------|----------|----------|
| Discount Amortization | (1,137) | |
| Premium Amortization | 6,200 | |
| Issuance Costs Amortization | (3,269) | |
| Accrued Interest Payable | (87,832) | (86,038) |

Issuance costs are reported as an expenditure when paid in the governmental funds, but are deferred on the statement of activities. 274,552

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net loss of the internal service fund is reported with governmental activities. (308,598)

Change in Net Assets of Governmental Activities \$1,108,643

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-------------|-------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$4,961,686 | \$4,961,686 | \$5,245,854 | \$284,168 |
| Intergovernmental | 5,274,118 | 5,284,118 | 5,761,444 | 477,326 |
| Interest | 171,133 | 171,133 | 145,071 | (26,062) |
| Tuition and Fees | 47,000 | 47,000 | 77,679 | 30,679 |
| Rent | 0 | 0 | 7,887 | 7,887 |
| Miscellaneous | 39,157 | 39,157 | 53,676 | 14,519 |
| <i>Total Revenues</i> | 10,493,094 | 10,503,094 | 11,291,611 | 788,517 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,974,200 | 5,338,973 | 5,197,353 | 141,620 |
| Special | 1,140,587 | 1,236,882 | 1,191,756 | 45,126 |
| Vocational | 260,636 | 278,092 | 272,329 | 5,763 |
| Support Services: | | | | |
| Pupils | 261,119 | 238,404 | 272,833 | (34,429) |
| Instructional Staff | 557,349 | 725,724 | 582,353 | 143,371 |
| Board of Education | 27,461 | 31,323 | 28,693 | 2,630 |
| Administration | 1,122,152 | 1,232,808 | 1,172,494 | 60,314 |
| Fiscal | 278,817 | 302,387 | 291,325 | 11,062 |
| Operation and Maintenance of Plant | 1,184,204 | 1,219,706 | 1,237,330 | (17,624) |
| Pupil Transportation | 793,146 | 781,428 | 828,728 | (47,300) |
| Central | 54,489 | 46,250 | 56,934 | (10,684) |
| Extracurricular Activities | 134,756 | 150,333 | 140,801 | 9,532 |
| Capital Outlay | 1,675 | 14,000 | 1,750 | 12,250 |
| Debt Service: | | | | |
| Principal Retirement | 27,321 | 27,321 | 27,321 | 0 |
| Interest and Fiscal Charges | 6,987 | 6,987 | 6,987 | 0 |
| <i>Total Expenditures</i> | 10,824,899 | 11,630,618 | 11,308,987 | 321,631 |
| <i>Excess of Revenues Under Expenditures</i> | (331,805) | (1,127,524) | (17,376) | 1,110,148 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Fixed Assets | 1,000 | 1,000 | 3,761 | 2,761 |
| Refund of Prior Year Expenditures | 0 | 5,000 | 17,485 | 12,485 |
| Other Financing Sources | 28,153 | 28,153 | 0 | (28,153) |
| Advances In | 2,000 | 2,000 | 12,000 | 10,000 |
| Advances Out | 0 | 0 | (3,000) | (3,000) |
| Transfers Out | (190,252) | (196,451) | (198,787) | (2,336) |
| <i>Total Other Financing Sources (Uses)</i> | (159,099) | (160,298) | (168,541) | (8,243) |
| <i>Net Change in Fund Balance</i> | (490,904) | (1,287,822) | (185,917) | 1,101,905 |
| <i>Fund Balance Beginning of Year</i> | 2,472,050 | 2,472,050 | 2,472,050 | 0 |
| Prior Year Encumbrances Appropriated | 333,101 | 333,101 | 333,101 | 0 |
| <i>Fund Balance End of Year</i> | \$2,314,247 | \$1,517,329 | \$2,619,234 | \$1,101,905 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio

Statement of Net Assets

Internal Service Fund

June 30, 2003

| | Medical-Dental Insurance |
|--|-----------------------------|
| Current Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$319,553 |
| Current Liabilities | |
| Claims Payable | 189,688 |
| Net Assets | |
| Unrestricted | \$129,865 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio
Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2003

| | Medical-Dental Insurance |
|--|-----------------------------|
| Operating Revenues | |
| Charges for Services | \$1,178,880 |
| Operating Expenses | |
| Purchased Services | 271,518 |
| Claims | 1,218,074 |
| <i>Total Operating Expenses</i> | 1,489,592 |
| <i>Operating Loss</i> | (310,712) |
| Non-Operating Revenues | |
| Interest Income | 2,114 |
| <i>Change in Net Assets</i> | (308,598) |
| <i>Net Assets at Beginning of Year</i> | 438,463 |
| <i>Net Assets at End of Year</i> | \$129,865 |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2003

| | <u>Medical-Dental Insurance</u> |
|--|-------------------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Transactions with Other Funds | \$1,178,880 |
| Cash Payments to Suppliers for Services | (271,518) |
| Cash Payments for Claims | <u>(1,153,078)</u> |
| <i>Net Cash Used by Operating Activities</i> | (245,716) |
| Cash Flows from Investing Activities | |
| Interest on Investments | <u>2,114</u> |
| <i>Net Decrease in Cash and Cash Equivalents</i> | (243,602) |
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>563,155</u> |
| <i>Cash and Cash Equivalents End of Year</i> | <u><u>\$319,553</u></u> |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | |
| Operating Loss | (\$310,712) |
| Changes in Liabilities | |
| Increase in Claims Payable | <u>64,996</u> |
| <i>Net Cash Used by Operating Activities</i> | <u><u>(\$245,716)</u></u> |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2003

| | |
|---------------------------|-----------------|
| Assets | |
| Cash and Cash Equivalents | <u>\$77,159</u> |
| Liabilities | |
| Due to Students | <u>\$77,159</u> |

See accompanying notes to the basic financial statements

West Muskingum Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 1 – Description of the School District and Reporting Entity

West Muskingum Local School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District was formed in 1960 and operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District is the 290th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 73 classified employees, 114 certificated full-time teaching personnel, and 13 administrative employees who provide services to 1,884 students and other community members. The School District currently operates five instructional buildings and one administrative building.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For West Muskingum Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association, the Mid-East Ohio Vocational School, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets 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 assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. 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 School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District 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 School District at this more detailed level. The focus of governmental 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District 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 three categories of funds: governmental, proprietary, 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 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 and liabilities is reported as fund balance. The General Fund, Debt Service Fund and the Classroom Facilities ELPP Capital Projects Fund are the major funds of the School District. The following is a description of the these funds:

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs.

Classroom Facilities ELLP (Expedited Local Partnership Program) Fund The Classroom Facilities ELPP Capital Projects Fund is used to account for the revenues and expenditures related to the construction and renovations of facilities of the District being financed through bonds.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, surgical, prescription drug, and dental claims.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student managed activities.

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 School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

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 are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, 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 School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District 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: property taxes available as an advance, revenue in lieu of taxes, interest, tuition, grants, fees, and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

West Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

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. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit which are reported at cost and federal agency securities which are reported at fair value based on quoted market prices.

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 2003 amounted to \$125,041, which includes \$66,309 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. 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 assets but are not reported in the fund financial statements.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District 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.

All reported capital assets, except land, land improvements, and construction in progress, 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> |
|----------------------------|------------------------|
| Buildings and Improvements | 20-40 years |
| Furniture and Fixtures | 5-10 years |
| Vehicles | 4 years |

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

J. 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 enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and revenues restricted for the purchase of buses. See Note 20 for additional information regarding set asides.

K. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

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 School District 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 School District's termination policy. The School District records a liability for accumulated unused sick leave after fifteen years of current service with the School District.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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, compensated absences, and contractually required pension contributions 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 year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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.

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization, and bus purchase.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. 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.

S. Budgetary Data

All funds, other than agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year

T. Unamortized Issuance Costs/ Bond Premium and Discount

In the government-wide financial statements bond issuance costs, bond premium and discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 3 - Changes in Accounting Principle and Restatement of Fund Balance

Changes in Accounting Principles For fiscal year 2003, the School District implemented GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences." GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not affect the presentation of the budgetary statements of the School District.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) 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 as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

| | |
|---|---------------------------|
| GAAP Basis | \$245,713 |
| Net Adjustment for Revenue Accruals | (56,424) |
| Net Adjustment for Expenditure Accruals | (55,970) |
| Beginning of Fiscal Year: | |
| Prepaid Items | 8,146 |
| End of Fiscal Year: | |
| Unrecorded Cash | (7,010) |
| Prepaid Items | (8,213) |
| Advances In | 12,000 |
| Advances Out | (3,000) |
| Adjustment for Encumbrances | (321,159) |
| Budget Basis | <u><u>(\$185,917)</u></u> |

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 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.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments (continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$5,187,323 and the bank balance was \$5,341,185. Of the bank balance:

1. \$500,000 was covered by federal depository insurance; and
2. \$4,841,185 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. Mutual fund investments are not classified by risk because they are not evidenced by securities that exist in physical or book entry form.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments (continued)

| Investment | Category 2 | Fair Value | Rate | Maturity |
|---|----------------------------|----------------------------|-------|------------|
| Government Securities: | | | | |
| Federal Home Loan Bank Bonds | \$2,001,250 | \$2,001,250 | 2.01% | 10/29/2004 |
| Federal National Mortgage Association - Notes | 2,001,250 | 2,001,250 | 2.15% | 01/24/2005 |
| Federal Home Loan Bank Bonds | 2,004,375 | 2,004,375 | 2.00% | 07/01/2005 |
| Federal National Mortgage Association - Notes | 2,003,125 | 2,003,125 | 2.18% | 08/19/2005 |
| Federal Home Loan Bank Bonds | 1,998,125 | 1,998,125 | 1.50% | 09/30/2005 |
| Federal Home Loan Bank Bonds | 2,005,000 | 2,005,000 | 1.81% | 12/23/2005 |
| Federal National Mortgage Association - Notes | 502,656 | 502,656 | 2.75% | 11/21/2006 |
| Federal National Mortgage Association - Notes | 2,003,750 | 2,003,750 | 2.15% | 12/29/2006 |
| Federal National Mortgage Association - Notes | 57,237 | 57,237 | 2.15% | 12/29/2006 |
| Federal National Mortgage Association - Notes | 2,502,344 | 2,502,344 | 1.75% | 11/29/2005 |
| Treasury Note | 10,000 | 10,000 | 2.14% | 10/31/2004 |
| First American Treasury Money Market | 0 | 115,803 | N/A | N/A |
| Federal National Mortgage Association - Notes | 3,484,600 | 3,484,600 | 0.00% | 07/15/2003 |
| Federal Home Loan Mortgage Corporation - Discount Notes | 2,698,920 | 2,698,920 | 0.00% | 12/12/2003 |
| Total | <u>\$23,272,632</u> | <u>\$23,388,435</u> | | |

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|--|--------------------------------------|---------------------|
| GASB Statement 9 | \$5,197,323 | \$23,378,435 |
| Investment which is part of the Cash Management Pool: | | |
| Treasury Note | <u>(10,000)</u> | <u>10,000</u> |
| GASB Statement 3 | <u>\$5,187,323</u> | <u>\$23,388,435</u> |

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 6 - Property Taxes (continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2002, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2003 tangible personal property tax settlement from Licking County was not received until July of 2003.

The School District receives property taxes from Muskingum and Licking County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes personal property and public utility taxes, and the late June personal property settlement which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations. The amount available as an advance at June 30, 2003, was \$2,345,170. \$1,842,473 was available to the General Fund and \$502,697 was available to the Debt Service Fund. The late personal property tax settlement was \$393 in the General Fund and \$62 in the Debt Service Fund. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance and the late personal property tax settlement are recognized as revenue.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 6 - Property Taxes (continued)

| | 2002 Second- Half Collections | | 2003 First- Half Collections | |
|--|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/ Residential and Other Real Estate | \$195,353,980 | 85.32% | \$201,125,470 | 85.76% |
| Public Utility Personal | 8,651,930 | 3.78% | 9,069,680 | 3.87% |
| Tangible Personal Property | 24,955,530 | 10.90% | 24,315,295 | 10.37% |
| Total | \$228,961,440 | 100.00% | \$234,510,445 | 100.00% |

| | | |
|---|---------|---------|
| Tax rate per \$1,000 of assessed valuation | \$43.70 | \$49.79 |
|---|---------|---------|

The tax rate per \$1,000 of assessed valuation increased due to the District's passing a 6.44 mill building levy.

Note 7 - Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts (rent, student fees and tuition), intergovernmental grants, interfund, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|--------------------------------|------------------|
| Governmental Activities | |
| CAFS Reimbursement | \$673 |
| Rent | 660 |
| Worker's Compensation Refund | 274 |
| School Lunch Reimbursement | 18,956 |
| Federal Grants | 158,646 |
| State Grants | 4,321 |
| Total | \$183,530 |

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

| | Balance <u>June 30, 2002</u> | Additions | Deletions | Balance <u>June 30, 2003</u> |
|--|---------------------------------|--------------------|-----------------|---------------------------------|
| Nondepreciable Capital Assets | | | | |
| Land and Land Improvements | \$99,175 | \$97,737 | \$0 | \$196,912 |
| Construction in Progress | 0 | 146,480 | 0 | 146,480 |
| Total Non-Depreciable Capital Assets | <u>99,175</u> | <u>244,217</u> | <u>0</u> | <u>343,392</u> |
| Depreciable Capital Assets | | | | |
| Building and Improvements | 5,260,935 | 406,533 | 0 | 5,667,468 |
| Furniture and Equipment | 797,048 | 47,034 | 0 | 844,082 |
| Vehicles | 1,354,308 | 135,910 | (26,864) | 1,463,354 |
| Total at Historical Cost | <u>7,412,291</u> | <u>589,477</u> | <u>(26,864)</u> | <u>7,974,904</u> |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | (4,000,657) | (102,580) | 0 | (4,103,237) |
| Furniture and Equipment | (449,939) | (61,781) | 0 | (511,720) |
| Vehicles | (1,249,338) | (46,247) | 26,864 | (1,268,721) |
| Total Accumulated Depreciation | <u>(5,699,934)</u> | <u>(210,608) *</u> | <u>26,864</u> | <u>(5,883,678)</u> |
| Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$1,712,357</u> | <u>\$378,869</u> | <u>\$0</u> | <u>\$2,091,226</u> |
| Governmental Activities Capital Assets, Net | <u>\$1,811,532</u> | <u>\$623,086</u> | <u>\$0</u> | <u>\$2,434,618</u> |

* Depreciation expense was charged to governmental functions as follows:

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 8 - Capital Assets (continued)

| | |
|------------------------------------|-----------------------------|
| Instruction: | |
| Regular | \$86,220 |
| Special | 13,926 |
| Vocational | 3,578 |
| Support Services: | |
| Pupil | 244 |
| Instructional Staff | 9,061 |
| Administration | 8,076 |
| Operation of Maintenance and Plant | 15,790 |
| Pupil Transportation | 41,712 |
| Extracurricular | 19,335 |
| Food Service Operations | <u>12,666</u> |
| Total Depreciation Expense | <u><u>\$210,608</u></u> |

Note 9 - Interfund Transfers and Balances

Transfers made during fiscal year 2003 were \$198,787 from the General Fund to the Permanent Improvement Capital Projects Fund for \$120,000 for emergency repairs, \$70,000 to the Technology Capital Projects Fund for replacing computers, and \$8,787 to the Food Service Special Revenue Fund to buy equipment. Also, the Classroom Facilities ELPP Capital Projects Fund transferred \$17,934 to the Debt Service Fund according to the bond issuance to cover a portion of the interest and fiscal charges of the 2003 bond issue.

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

| | <u>Receivable</u> | <u>Payable</u> |
|--------------------|-----------------------|-----------------------|
| General Fund | \$3,000 | \$347 |
| Food Service Grant | 347 | 0 |
| State Grant Funds | <u>0</u> | <u>3,000</u> |
| Total | <u><u>\$3,347</u></u> | <u><u>\$3,347</u></u> |

The School District advanced monies from the General Fund to the State Grants Special Revenue Fund for grant monies not received as of June 30, 2003. The advance will be repaid in fiscal year 2004.

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Reed and Baur Insurance Agency, through Indiana Insurance, for property, fleet and automobile insurance. Coverage provided is as follows:

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 10 - Risk Management (continued)

| | |
|---|--------------|
| Building and Contents-replacement cost (\$5,000 deductible) | \$24,100,608 |
| Steam Boiler (\$5,000 deductible) | 24,100,608 |
| Extra Expense | 300,000 |
| Inland Marine Coverage (\$1,000 deductible) | 1,400,000 |
| Accounts Receivable | 100,000 |
| Equipment | 50,000 |
| Fine Arts | 25,000 |
| Newly acquired property | 1,000,000 |
| Automobile Liability (\$500 deductible) | 2,000,000 |
| Uninsured Motorists (\$500 deductible) | 1,000,000 |

During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 18)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

| | |
|-----------------------------|-------------|
| General Liability | |
| Per occurrence | \$1,000,000 |
| Aggregate Per Year | 3,000,000 |
| Fire Damage | 100,000 |
| Medical Expense | 10,000 |
| Employee Benefits Liability | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2003.

B. Worker's Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 10 - Risk Management (continued)

C. Employee Medical Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$189,688 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchased an aggregate stop-loss coverage policy in the amount of \$1,000,000 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$35,000 annually.

Changes in the fund's claims liability amount in fiscal years 2002 and 2003 were:

| | Balance at <u>Beginning of Year</u> | Current Year <u>Claims</u> | Claim <u>Payments</u> | Balance at <u>End of Year</u> |
|------|--|-------------------------------|--------------------------|----------------------------------|
| 2002 | \$128,070 | \$733,439 | \$736,817 | \$124,692 |
| 2003 | 124,692 | 1,218,074 | 1,153,078 | 189,688 |

Note 11 - 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 administrators who are contracted to work 260 days per year earn five to twenty 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 a maximum of 215 days for certified and classified employees. Upon retirement, certified employees receive payment for one-fourth of their total sick leave accumulation up to 51 days. Classified employees, upon retirement, receive payment for one-third of the total sick leave accumulation up to 49 days.

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Athem Life Insurance Company.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 11 - Employee Benefits (continued)

C. Retirement Incentive Payable

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$12,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in a lump sum payment at the time of retirement. Teachers who meet the criteria above and who have worked 25 years or more in the District receive an additional \$2,000.

Non-certified employees who retire with a minimum of 25 years of SERS service, ten of which have been earned as an employee of the District, receive an additional five days of severance pay as calculated on the employees rate of pay at the time of retirement.

During fiscal year 2003, the School District paid \$40,000 in retirement incentives that were accrued as liabilities at June 30, 2002. There were no amounts to be accrued as retirement incentive payables as of June 30, 2003.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$127,207, \$76,567, and \$61,180, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$65,714 representing the unpaid contribution for fiscal year 2003, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

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

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 12 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$707,561, \$496,845, and \$513,670 respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. Contributions for the DC and CP Plans for the fiscal year ended June 30, 2003, were \$9,612 made by the School District and \$13,915 made by plan members. The balance outstanding is reflected as an intergovernmental payable.

C. 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, 2003, one member of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 13 - Postemployment Benefits (continued)

Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$54,428 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$121,176.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 14 - Capitalized Leases

The School District has entered into capitalized leases for copiers. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the General Fund.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 14 - Capitalized Leases (continued)

The agreements provide for minimum annual rental payments as follows:

| Fiscal Year Ending June 30, | General Long-Term Obligations |
|---|----------------------------------|
| 2004 | \$28,603 |
| 2005 | 28,493 |
| 2006 | 28,229 |
| 2007 | 4,485 |
| Total Minimum Lease Payments | \$89,810 |
| Less: Amount Representing Interest | (10,674) |
| Present Value of Minimum Lease Payments | <u>\$79,136</u> |

The copiers have been capitalized in the amount of \$121,977, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2003, was \$40,563. Principal payments in fiscal year 2003 totaled \$27,321 in the governmental funds.

Note 15 - Long Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

| | Principal Outstanding 6/30/2002 | Additions | Reductions | Principal Outstanding 6/30/2003 | Amounts Due in One Year |
|--|---------------------------------------|---------------------|------------------|---------------------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| School Facilities Construction and Improvements | | | | | |
| Serial Bonds - \$4,735,000 - 2.00% - 3.60% | \$0 | \$4,735,000 | \$0 | \$4,735,000 | \$400,000 |
| Term Bonds - \$19,215,000 - 4.00% - 5.00% | 0 | 19,215,000 | 0 | 19,215,000 | 0 |
| Serial/Term Bonds Bond Premium | 0 | 520,765 | 6,200 | 514,565 | 18,599 |
| Term Bond Discount | 0 | (95,523) | (1,137) | (94,386) | (3,412) |
| Total General Obligation Bonds | <u>0</u> | <u>24,375,242</u> | <u>5,063</u> | <u>24,370,179</u> | <u>415,187</u> |
| Capital Leases | 95,106 | 11,351 | 27,321 | 79,136 | 23,041 |
| Compensated Absences Payable | 699,992 | 81,251 | 81,588 | 699,655 | 102,764 |
| Total Governmental Activities Long-Term Liabilities | <u>\$795,098</u> | <u>\$24,467,844</u> | <u>\$113,972</u> | <u>\$25,148,970</u> | <u>\$540,992</u> |

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 15 - Long Term Obligations (continued)

On March 10, 2003, the School District issued \$23,950,000 in voted general obligation bonds to pay the local share of the school construction under the state of Ohio Classroom Facilities Assistance Program, as part of the Expedited Local Partnership Program. The bond issue included serial and term bonds in the amounts of \$4,735,000 and \$19,215,000, respectively. The bonds will be retired from the Debt Service Fund. The serial and a portion of the term bonds were sold at a premium of \$520,765, with a portion of the term bonds being sold at a discount of \$95,523, both of which will be amortized over the life of the bonds. Issuance costs associated with the bond issue were \$274,552 and are deferred and will be amortized over the life of the bond issue. The bonds were issued for a twenty-eight year period with a final maturity at December 1, 2030. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new buildings. The School District must maintain a maintenance plan and submit it to the Ohio School Facilities Commission every five years for the term of the bond.

The term bonds maturing on December 1, 2010 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| <u>Year</u> | <u>Principal Amount to be Redeemed</u> |
|-------------|--|
| 2009 | \$350,000 |

The remaining principal amount of such bonds (\$390,000) will be paid at stated maturity on December 1, 2010.

The term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| <u>Year</u> | <u>Principal Amount to be Redeemed</u> |
|-------------|--|
| 2015 | \$605,000 |
| 2016 | 655,000 |

The remaining principal amount of such bonds (\$710,000) will be paid at stated maturity on December 1, 2017.

The term bonds maturing on December 1, 2024 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

West Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 15 - Long Term Obligations (continued)

| Year | Principal Amount to be Redeemed |
|------|---------------------------------|
| 2018 | \$765,000 |
| 2019 | 835,000 |
| 2020 | 905,000 |
| 2021 | 980,000 |
| 2022 | 1,060,000 |
| 2023 | 1,145,000 |

The remaining principal amount of such bonds (\$1,235,000) will be paid at stated maturity on December 1, 2024.

The term bonds maturing on December 1, 2026 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Principal Amount to be Redeemed |
|------|---------------------------------|
| 2025 | \$1,330,000 |

The remaining principal amount of such bonds (\$1,425,000) will be paid at stated maturity on December 1, 2026.

The term bonds maturing on December 1, 2030 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Principal Amount to be Redeemed |
|------|---------------------------------|
| 2027 | \$1,525,000 |
| 2028 | 1,640,000 |
| 2029 | 1,765,000 |

The remaining principal amount of such bonds (\$1,895,000) will be paid at stated maturity on December 1, 2030.

Principal and interest requirements to retire the long-term general obligation bonds outstanding at June 30, 2003, are as follows:

West Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 15 - Long Term Obligations (continued)

| Fiscal Year | Principal | Interest | Total |
|----------------|---------------------|---------------------|---------------------|
| 2004 | \$400,000 | \$1,049,986 | \$1,449,986 |
| 2005 | 380,000 | 1,042,186 | 1,422,186 |
| 2006 | 410,000 | 1,034,286 | 1,444,286 |
| 2007 | 445,000 | 1,025,736 | 1,470,736 |
| 2008 | 545,000 | 1,015,155 | 1,560,155 |
| 2009-2013 | 2,225,000 | 4,845,924 | 7,070,924 |
| 2014-2018 | 3,040,000 | 4,376,362 | 7,416,362 |
| 2019-2023 | 0 | 3,526,001 | 3,526,001 |
| 2024-2028 | 9,680,000 | 2,163,431 | 11,843,431 |
| 2029-2031 | 6,825,000 | 410,250 | 7,235,250 |
| Totals | <u>\$23,950,000</u> | <u>\$20,489,317</u> | <u>\$44,439,317</u> |

Capital leases will be paid from the general fund. Compensated absences will be paid from the general, food service and federal grant funds.

The overall debt margin of the School District as of June 30, 2003, was \$21,584,500, with an unvoted debt margin of \$234,510.

Note 16 – Notes Payable

During fiscal year 2003 the School District issued \$23,950,000 of bond anticipation notes at 1.80-2.00 percent rate for the classroom facilities project. These notes were fully retired during fiscal year 2003 through the issuance of general obligation bonds.

Note 17 - Jointly Governed Organizations

A. Licking Area Computer Association

The School District is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. The School District's total payments to LACA for fiscal year 2003 were \$103,279. Financial statements for LACA can be obtained from their fiscal agent the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 17 - Jointly Governed Organizations (continued)

B. Mid-East Ohio Vocational School

The Mid-East Ohio Vocational School is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Vocational School is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2003 the School District contributed \$900 to the Vocational School. To obtain financial information write to the Mid-East Ohio Vocational School District, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

Note 18 - Insurance Purchasing Pools

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

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (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 school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP 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 provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2003.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 19 – Contingencies (continued)

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 20 - Set Asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve set-aside.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

| | <u>Instructional Materials</u> | <u>Capital Improvements</u> | <u>Budget Stabilization</u> |
|---|------------------------------------|---------------------------------|---------------------------------|
| Set-aside Reserve Balance as of June 30, 2002 | \$0 | \$0 | \$50,193 |
| Current Year Set-aside Requirement | 250,569 | 250,569 | 0 |
| Qualifying Disbursements | <u>(210,448)</u> | <u>(75,455)</u> | <u>0</u> |
| Current Year Requirement less Qualifying Disbursements | 40,121 | 175,114 | 0 |
| | | | |
| Beginning carryover Offsets / Excess Disbursements | 166,236 | 116,481 | \$0 |
| Current Year Offsets / Excess Disbursements | <u>0</u> | <u>781,103</u> | <u>0</u> |
| Total Available as Offsets / Excess Disbursements | 166,236 | 897,584 | 0 |
| | | | |
| Current Year Application of Offsets / Excess Disbursements | <u>40,121</u> | <u>175,114</u> | <u>0</u> |
| Offsets / Excess Disbursements to be Carried Forward to Future Years | 126,115 | 722,470 | 0 |
| | | | |
| Set-Aside Reserve Balance as of June 30, 2003 | <u><u>0</u></u> | <u><u>0</u></u> | <u><u>50,193</u></u> |
| | | | |
| Set-Aside Cash Balance as of June 30, 2003 | <u><u>0</u></u> | <u><u>0</u></u> | <u><u>\$50,193</u></u> |

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to or below zero. The extra amount in the textbook set-aside may be used to reduce the set-aside requirements of future years. The excess monies from transfers from the General Fund to the Permanent Improvement Capital Projects Fund and the tax levy receipts in the current and previous fiscal years may be used to reduce the capital set-aside in future fiscal years.

West Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 21 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**WEST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

| FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title | Federal CFDA Number | Grant Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|---|---------------------------|-----------------|------------------|---------------------|------------------|--------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation Program | 10.550 | N/A | \$0 | \$32,700 | \$0 | \$32,700 |
| School Breakfast Program | 10.553 | 48884-05PU-02 | 6,169 | | 6,169 | |
| National School Lunch Program | 10.555 | 48884-LLP4-02 | 104,642 | | 104,642 | |
| Total Nutrition Cluster | | | 110,811 | 32,700 | 110,811 | 32,700 |
| Total U.S. Department of Agriculture | | | 110,811 | 32,700 | 110,811 | 32,700 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 048884-C1S1-02 | 35,967 | | 91,979 | |
| | 84.010 | 048884-C1S1-03 | 269,436 | | 244,934 | |
| Total Title I Grants | | | 305,403 | | 336,913 | |
| Special Education Grants to States | 84.027 | 048884-6BSF-02P | 15,529 | | 39,784 | |
| | 84.027 | 048884-6BSF-03P | 161,635 | | 152,207 | |
| | 84.027 | 048884-6BSD-03P | 15,000 | | 165 | |
| Total Special Education Grants | | | 192,164 | | 192,156 | |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | 048884-DRS1-03 | 14,095 | | 14,095 | |
| Eisenhower Professional Development State Grants | 84.281 | 048884-MSS1-02 | 0 | | 117 | |
| Innovative Education Program Strategies | 84.298 | 048884-C2S1-03 | 8,986 | | 5,884 | |
| Education Technology State Grants | 84.318 | 048884-TJS1-03 | 10,179 | | 10,179 | |
| Class Size Reduction | 84.340 | 048884-CRS1-02 | 0 | | 1,070 | |
| School Renovation Grants | 84.352 | 048884-ATS3-02 | 2,960 | | 2,804 | |
| Improving Teacher Quality State Grants | 84.367 | 048884-TRS1-03 | 75,741 | | 66,697 | |
| | 84.367 | 048884-MSS1-02 | | | 9,744 | |
| | 84.367 | 048884-CRS1-02 | 7,964 | | 17,886 | |
| Total Improving Teacher Quality State Grants | | | 83,705 | | 94,327 | |
| Total U.S. Department of Education | | | 617,492 | | 657,545 | |
| <u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u> | | | | | | |
| <i>Passed Through Ohio Department of Public Safety:</i> | | | | | | |
| Public Assistance Grants | 83.544 | N/A | 1,632 | | 1,632 | |
| Total Federal Emergency Management Agency | | | 1,632 | | 1,632 | |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | |
| <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| Medical Assistance Program - CAFS | 93.778 | N/A | 5,114 | | 5,114 | |
| Total U.S. Department of Health and Human Services | | | 5,114 | | 5,114 | |
| Total Federal Awards Receipts and Expenditures | | | \$735,049 | \$32,700 | \$775,102 | \$32,700 |

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of the Schedule.

**WEST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

West Muskingum Local School District
Muskingum County
4880 West Pike
Zanesville, Ohio 43701

To the Board of Education:

We have audited the basic financial statements of West Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the School District in a separate letter dated February 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 12, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

West Muskingum Local School District
Muskingum County
4880 West Pike
Zanesville, Ohio 43701

To the Board of Education:

Compliance

We have audited the compliance of West Muskingum Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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West Muskingum Local School District
Muskingum County
Independent Accountants' Report on Compliance with Requirements Applicable
to Each Major Federal Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 12, 2004

**WEST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Title I Grants to Local Educational Agencies, CFDA #84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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**Auditor of State
Betty Montgomery**

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800-282-0370

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WEST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2004**