



Mary Taylor, CPA  
Auditor of State



EAST MUSKINGUM ACADEMY  
MUSKINGUM COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Academy  
Muskingum County  
13505 John Glenn School Road  
New Concord, Ohio 43762

To the Board of Directors:

We have audited the accompanying basic financial statements of the East Muskingum Academy, Muskingum County, Ohio (the EMA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the EMA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the EMA's management. Our responsibility is to express an opinion on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Muskingum Academy, Muskingum County, Ohio, as of June 30, 2008, and the changes in financial position and cash flows 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 March 26, 2009, on our consideration of the EMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

March 26, 2009

**East Muskingum Academy  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

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The discussion and analysis of the East Muskingum Academy's (EMA) financial performance provides an overall review of the EMA's financial activities for the period ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the EMA's financial performance.

**Highlights**

EMA opened for its first year of operation in March 2006 as a kindergarten through twelfth grade site-based program within the East Muskingum Local School District (Sponsor). Each student receives a majority of their learning opportunities from a combination of site-based learning within the Sponsor's classrooms, internet-based learning opportunities that are primarily site-based, and non-internet based learning, which may include both conventional classroom-based coursework and nontraditional non-classroom-based learning experiences. During fiscal year 2008, twenty-eight students were enrolled at the EMA.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how EMA did financially during the period ended June 30, 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the period revenues and expenses regardless of when cash is received or paid.

These statements report EMA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of EMA has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

EMA uses enterprise presentation for all of its activities.

**East Muskingum Academy  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

Table 1 provides a summary of EMA's net assets for fiscal year 2008 compared to 2007:

Table 1  
Net Assets

	2008	2007	Change
<u>Assets:</u>			
Current Assets	\$0	\$5,000	(\$5,000)
<u>Liabilities:</u>			
Current Liabilities	4,697	3,148	1,549
<u>Net Assets:</u>			
Unrestricted	(4,697)	1,852	(6,549)
Total Net Assets	(\$4,697)	\$1,852	(\$6,549)

EMA had negative net assets at June 30, 2008 of \$4,697. This is due to amounts owed to the Ohio Department of Education for being over-funded during fiscal year 2008. Effective June 30, 2008, the EMA approved a one year suspension and will not be serving students during fiscal year 2009. EMA receives foundation payments from the State based on the number of full-time equivalency students.

Table 2 reflects the changes in net assets for the periods ended June 30, 2008 and June 30, 2007:

Table 2  
Change in Net Assets

	2008	2007	Change
<u>Operating Revenues:</u>			
Foundation	\$167,090	\$218,335	(\$51,245)
<u>Non-Operating Revenues:</u>			
Grants	3,000	103,131	(100,131)
Total Revenues	170,090	321,466	(151,376)
<u>Operating Expenses:</u>			
Purchased Services	176,585	320,836	(144,251)
Materials and Supplies	54	42,000	(41,946)
Total Expenses	176,639	362,836	(186,197)
Change in Net Assets	(6,549)	(41,370)	34,821
Net Assets at Beginning of the Year	1,852	43,222	(41,370)
Net Assets at End of the Year	(\$4,697)	\$1,852	(\$6,549)

**East Muskingum Academy  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

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Non-operating grants revenues of the EMA decreased \$100,131 during fiscal year 2008. This is a result of there being a significantly smaller amount of grant dollars received due to the EMA receiving start up grants in the previous fiscal year. In addition, expenses of the EMA decreased \$186,197. This is due to many expenses being incurred for the start up of the EMA in the prior year.

**Budgeting**

EMA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

**Capital Assets and Debt Administration**

Capital Assets

EMA did not have any capital assets during fiscal year 2008.

Debt

EMA did not incur any debt during the fiscal year ended June 30, 2008.

**Current Issues**

Currently, the EMA is at a crossroads in the terms of direction. During fiscal year 2008, it operated as a credit recovery school which helps at risk students. The EMA is not serving the population of students that are high achievers or average students who may want different course offerings. This is a potential future goal for the EMA but to meet those challenges the EMA needs to hire additional staff and currently the funding is not available. Due to those previous factors, the EMA has been granted a one-year suspension by the Ohio Department of Education in order for the board to determine the direction of the EMA and whether its purpose is significant enough to continue to operate the EMA.

**Contacting the EMA's Financial Management**

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of EMA's finances and to show EMA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lottie Ransbottom, Treasurer, East Muskingum Academy, 13505 John Glenn School Road, New Concord, Ohio 43762. Or E-Mail at [lransbottom@east-muskingum.k12.oh.us](mailto:lransbottom@east-muskingum.k12.oh.us).

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**East Muskingum Academy  
Muskingum County, Ohio**

*Statement of Net Assets  
June 30, 2008*

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<u>Assets:</u>	
Total Assets	\$0
 <u>Liabilities:</u>	
Deferred Revenue	<u>4,697</u>
Total Liabilities	<u>4,697</u>
 <u>Net Assets:</u>	
Unrestricted (Deficit)	<u>(4,697)</u>
Total Net Assets	<u><u>(\$4,697)</u></u>

See accompanying notes to the basic financial statements

**East Muskingum Academy**  
**Muskingum County, Ohio**

*Statement of Revenues, Expenses, and Changes in Net Assets*  
*For the Fiscal Year Ended June 30, 2008*

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<u>Operating Revenues:</u>	
Foundation	<u>\$167,090</u>
Total Operating Revenues	<u>167,090</u>
<u>Operating Expenses:</u>	
Purchased Services	176,585
Materials and Supplies	<u>54</u>
Total Operating Expenses	<u>176,639</u>
Operating Loss	(9,549)
<u>Non-Operating Revenues:</u>	
Grants	<u>3,000</u>
Change in Net Assets	(6,549)
Net Assets at Beginning of Year	<u>1,852</u>
Net Assets (Deficit) at End of Year	<u><u>(\$4,697)</u></u>

See accompanying notes to the basic financial statements

**East Muskingum Academy**  
**Muskingum County, Ohio**

*Statement of Cash Flows*  
*For the Fiscal Year Ended June 30, 2008*

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<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$168,639
Cash Payments to Suppliers for Goods and Services	<u>(176,639)</u>
Net Cash Used for Operating Activities	<u>(8,000)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Grants Received	6,000
Net Decrease in Cash and Cash Equivalents	(2,000)
Cash and Cash Equivalents Beginning of Year	<u>2,000</u>
Cash and Cash Equivalents End of Year	<u><u>\$0</u></u>
Reconciliation of Operating Loss to	
<u>Net Cash Used for Operating Activities:</u>	
Operating Loss	<u>(\$9,549)</u>
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities:	
Changes in Liabilities:	
Increase in Deferred Revenue	<u>1,549</u>
Net Cash Used for Operating Activities	<u><u>(\$8,000)</u></u>
See accompanying notes to the basic financial statements	

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**East Muskingum Academy  
Muskingum County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**Note 1 - Description of the School**

The East Muskingum Academy (EMA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314, specifically Section 3314.03. EMA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect EMA's tax exempt status. EMA's mission is to enhance and facilitate student learning by combining a site-based educational setting with state-of-the-art curriculum and instruction with access to local school resources that complement that instruction and prepare students to become lifelong learners and productive citizens. The students may include, but will not be limited to, home schoolers; children with special physical and mental needs; students removed from the regular classroom for discipline concerns; students who need an alternative to the traditional classroom for various reasons, including religious reasons; transient students; and students with the East Muskingum Local School District, sponsor School District, that desire a specific course not currently offered but is available through online instruction.

EMA was created on March 22, 2006, by entering a five year contract with the East Muskingum Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of EMA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the EMA with the Treasurer of the Sponsor completing the role of Treasurer for the EMA.

EMA operates under the direction of a five-member Board of Directors who are appointed from the public by the Sponsor. The members are public officials, public employees or community leaders demonstrating a professional interest in education or in other issues involving children and desires to further the objectives of the EMA. EMA is a component unit of the Sponsor. The Sponsor can impose its will on the EMA. The Sponsor can suspend the EMA's operations for any of the following reasons: 1) The EMA's failure to meet student performance requirements stated in its contract with the Sponsor; 2) The EMA's failure to meet generally accepted standards of fiscal management; 3) The EMA's violation of any provisions of the contract with the Sponsor or applicable state or federal law; or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of EMA and the children it serves. During the fiscal year ended June 30 2008, EMA paid the Sponsor to provide instructional, administrative, and technical services.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the EMA 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. EMA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the EMA's accounting policies are described below.

**A. Basis of Presentation**

The EMA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

**East Muskingum Academy  
Muskingum County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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EMA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**B. Measurement Focus**

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of EMA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how EMA finances meet its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. EMA's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which EMA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted; matching requirements, in which EMA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to EMA on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the EMA's contract with its Sponsor. The contract between EMA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**E. Cash and Cash Equivalents**

Cash received by EMA is reflected as "Cash and Cash Equivalents" on the statement of net assets. EMA had no investments during the fiscal year ended June 30, 2008.

**F. Capital Assets**

EMA follows the capital asset policy of the Sponsor. Therefore, EMA maintains a capitalization threshold of five thousand dollars. At June 30, 2008, EMA had no capital assets that met the threshold. All capital assets will be capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets will be recorded at their fair market values as of the date received. All of EMA's reported capital assets will be depreciated using the straight-line method over the estimated useful life.

**East Muskingum Academy  
Muskingum County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by EMA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. EMA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of EMA.

Operating expenses are necessary costs incurred to provide the service that is the primary activity of EMA. All revenues and expenses not meeting this definition are reported as non-operating.

**I. Estimates**

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

**Note 3 – Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, EMA's deposits may not be returned. EMA does not have a deposit policy for custodial credit risk. At June 30, 2008, the bank balance of EMA's deposits was \$0. All of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", no amounts were uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 4 – Contract with the Sponsor**

EMA entered into a three-year contract on January 12, 2007, with East Muskingum Local School District for comprehensive services. Under the contract, the following terms were agreed upon:

- The Sponsor shall provide EMA with instructional, supervisory/administrative, and technical services sufficient to effectively implement EMA's educational plan and EMA's assessment and accountability plan.
- All personnel providing services to EMA on behalf of the Sponsor under the agreement shall be employees of the Sponsor and the Sponsor shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.

**East Muskingum Academy  
Muskingum County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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- The technical services provided by the Sponsor to EMA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation. All equipment shall remain the property of the Sponsor, including but not limited to computer hardware and software equipment.
- EMA shall pay to the Sponsor 100 percent of the base formula funds, and 100 percent of the additional funds received by EMA from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code. These fees shall be paid according to a schedule agreed to by the parties, but not less than four times per fiscal year.

For fiscal year 2008, the Sponsor provided comprehensive services in the amount of \$176,639. EMA paid this entire amount as of June 30, 2008.

**Note 5 – Risk Management**

EMA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the fiscal year ended June 30, 2008, EMA had liability insurance through the East Muskingum Local School District's policy.

**Note 6 – Purchased Services**

For the period July 1, 2007 through June 30, 2008, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Consultant/ Personnel Services	\$137,335
Technological Services	38,151
Fiscal Services	166
Legal Services	933
Total	<u>\$176,585</u>

**Note 7 – Related Party Transactions**

Of the five-member board of EMA, East Muskingum Local School District, the Sponsor, appoints all members. EMA is presented as a component unit of the Sponsor. For fiscal year 2008, \$176,639 in services was provided by the Sponsor to the EMA. EMA paid this entire amount as of June 30, 2008.

**Note 8 – Contingencies**

**A. Grants**

EMA 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the EMA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the EMA at June 30, 2008.

**East Muskingum Academy  
Muskingum County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by EMA. These reviews are conducted to ensure EMA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

**Note 9 – EMA Suspension**

Effective June 30, 2008, the EMA was granted a one year suspension of operations from the Ohio Department of Education. The EMA is using this suspension to reevaluate the direction of the EMA to determine if it should redirect its services or cease to continue.

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# Mary Taylor, CPA

Auditor of State

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

East Muskingum Academy  
Muskingum County  
13505 John Glenn School Road  
New Concord, Ohio 43762

To the Board of Directors:

We have audited the accompanying financial statements of the East Muskingum Academy, Muskingum County, Ohio (the EMA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the EMA's basic financial statements and have issued our report thereon dated March 26, 2009. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EMA's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the EMA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the EMA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the EMA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the EMA's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the EMA's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of management, Board of Directors and the East Muskingum Local School District (the EMA's sponsor). We intend it for no one other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

March 26, 2009



**Mary Taylor, CPA**  
Auditor of State

**EAST MUSKINGUM ACADEMY**

**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  
APRIL 16, 2009**