



Mary Taylor, CPA
Auditor of State

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Local School District
Muskingum County
13505 John Glenn School Drive
New Concord, Ohio 43762

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund 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 School District'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.

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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The 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 also 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 26, 2009

East Muskingum Local School District, Ohio

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

The discussion and analysis of the East Muskingum Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities decreased \$745,567.
- General revenues accounted for \$14,425,743 in revenue or 79 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,849,587 or 21 percent of total revenues of \$18,275,330.
- Capital assets decreased \$1,373,118 primarily due to current year depreciation.
- The School District had \$19,020,897 in expenses related to governmental activities; only \$3,849,587 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$14,425,743 were not adequate to provide for these programs.

Using this Basic Financial Statements 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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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. In the case of the School District, the General Fund and the Permanent Improvement Capital Projects Fund are the only major funds for fiscal year 2008.

Reporting the School District as a Whole

Statement of New Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2007-2008 fiscal year?"

East Muskingum Local School District, Ohio

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

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, extracurricular activities, and debt service.

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.

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 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.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the governmental activities on the entity wide financial statements.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007.

East Muskingum Local School District, Ohio

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

Table 1 - Net Assets

| | Governmental Activities | | |
|---|-------------------------|---------------------|--------------------|
| | 2008 | 2007 | Change |
| Assets | | | |
| Current and Other Assets | \$14,152,712 | \$12,968,437 | \$1,184,275 |
| Capital Assets | 29,909,562 | 31,282,680 | (1,373,118) |
| Total Assets | <u>44,062,274</u> | <u>44,251,117</u> | <u>(188,843)</u> |
| Liabilities | | | |
| Long-Term Liabilities | 9,507,909 | 9,689,501 | (181,592) |
| Other Liabilities | 7,511,404 | 6,773,088 | 738,316 |
| Total Liabilities | <u>17,019,313</u> | <u>16,462,589</u> | <u>556,724</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 23,620,620 | 24,669,946 | (1,049,326) |
| Restricted | 2,415,781 | 2,292,403 | 123,378 |
| Unrestricted | 1,006,560 | 826,179 | 180,381 |
| Total Net Assets | <u>\$27,042,961</u> | <u>\$27,788,528</u> | <u>(\$745,567)</u> |

Total assets decreased \$188,843. The book value of capital assets decreased by \$1,373,118 due to current year depreciation exceeding capital asset additions in the current year. This decrease is offset by an increase in cash and cash equivalents in the amount of \$1,091,235. The increase in cash and cash equivalents is due to a decrease in permanent improvement expenditures in the amount of \$927,432. During fiscal year 2007, the School District issued and spent \$497,079 in Energy Conservation Notes for the purpose of installing geothermal heating and cooling energy improvements to Perry Elementary, the School District purchased two buses in the amount of \$194,097, and several computers in the amount of \$188,136.

Total liabilities increased \$556,724. The increase in liabilities is primarily due to an increase in deferred revenue in the amount of \$1,503,654. During 2008, the Muskingum County Auditor's Office converted their real estate taxes to a new software system. This conversion resulted in the second-half real estate taxes that were normally collected in late June to not be due and collected until mid August, which resulted in a decrease in the amount available as an advance. This increase is offset by a decrease in accounts payable in the amount of \$424,780. During fiscal year 2007, accounts payable consisted of the purchasing of computers in the amount of \$188,136 and two buses in the amount of \$194,097.

Net assets decreased \$745,567. Invested in Capital Assets, Net of Related Debt decreased \$1,049,326. This decrease can be attributed to decrease in the book value of capital assets as explained above. The increase in unrestricted net assets is a direct result of the increase in the Self-Insurance Fund's balance from the previous year due to a decrease in claims expense in the amount of \$469,955.

East Muskingum Local School District, Ohio

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

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008 and comparisons to fiscal year 2007.

Table 2
Changes in Net Assets

| | Governmental Activities | | |
|--|-------------------------|---------------------|--------------------|
| | 2008 | 2007 | Change |
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services | \$1,770,258 | \$1,560,702 | \$209,556 |
| Operating Grants, Contributions and Interest | 1,955,333 | 2,013,227 | (57,894) |
| Capital Grants and Contributions | 123,996 | 128,984 | (4,988) |
| | <u>3,849,587</u> | <u>3,702,913</u> | <u>146,674</u> |
| General Revenue | | | |
| Property Taxes | 4,752,007 | 6,047,129 | (1,295,122) |
| Gain on Sale of Capital Asset | 5,717 | 5,078 | 639 |
| Payment in Lieu of Taxes | 0 | 84,820 | (84,820) |
| Grants and Entitlements | 9,314,546 | 9,126,847 | 187,699 |
| Investment Earnings | 224,782 | 219,206 | 5,576 |
| Miscellaneous Revenue | 128,691 | 123,603 | 5,088 |
| | <u>14,425,743</u> | <u>15,606,683</u> | <u>(1,180,940)</u> |
| Total Revenues | <u>18,275,330</u> | <u>19,309,596</u> | <u>(1,034,266)</u> |
| Program Expenses | | | |
| Instruction | | | |
| Regular | 8,464,199 | 8,955,100 | (490,901) |
| Special | 1,464,784 | 1,780,925 | (316,141) |
| Vocational | 251,415 | 249,448 | 1,967 |
| Intervention | 11,499 | 11,736 | (237) |
| Support Services | | | |
| Pupils | 379,777 | 401,434 | (21,657) |
| Instructional Staff | 1,166,723 | 931,565 | 235,158 |
| Board of Education | 53,685 | 72,096 | (18,411) |
| Administration | 1,945,472 | 2,049,138 | (103,666) |
| Fiscal | 394,640 | 409,113 | (14,473) |
| Operation and Maintenance of Plant | 1,654,303 | 1,966,928 | (312,625) |
| Pupil Transportation | 1,247,647 | 1,387,858 | (140,211) |
| Central | 149,490 | 156,808 | (7,318) |
| Operation of Non-Instructional Services | | | |
| Food Service Operations | 1,001,503 | 1,016,708 | (15,205) |
| Extracurricular Activities | 486,287 | 470,396 | 15,891 |
| Interest and Fiscal Charges | 349,473 | 353,614 | (4,141) |
| Total Expenses | <u>19,020,897</u> | <u>20,212,867</u> | <u>(1,191,970)</u> |
| <i>Change in Net Assets</i> | <u>(745,567)</u> | <u>(903,271)</u> | <u>157,704</u> |
| Net Assets Beginning of Year | <u>27,788,528</u> | <u>28,691,799</u> | <u>(903,271)</u> |
| Net Assets End of Year | <u>\$27,042,961</u> | <u>\$27,788,528</u> | <u>(\$745,567)</u> |

East Muskingum Local School District, Ohio

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

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the revenue from tax on real property generated by the levy will not increase solely as a result of inflation.

As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 26 percent of revenues for governmental activities for the School District in fiscal year 2008. While the School District operates on a very tight budget, revenue sources are not projected to keep pace with expenses.

During fiscal year 2008, property taxes revenue decreased by \$1,295,122 due to a decrease in the amount available as an advance. This decrease is primarily due to the second-half real estate taxes that were normally collected in late June to not be due and collected until mid August. This decrease in revenue is offset by a decrease in regular instruction expenses in the amount of \$490,901, special instruction expenses in the amount of \$316,141, and operation and maintenance expenses in the amount of \$312,625. Regular instruction expense decreased due to a decrease in claims expense in the amount of \$256,204 which is reflected as program expenses on the statement of activities. In addition, during fiscal year 2007 the School District purchased technology equipment for regular instruction programs in the amount of \$188,136 and no technology equipment was purchased in fiscal year 2008. The decrease in special instruction expenses is due to the School District paying fiscal year 2007 costs and six months of fiscal year 2006 costs which were in arrears, during fiscal year 2007. During fiscal year 2008, the School District only paid 2008 special instruction costs. Operation and maintenance expenses decreased primarily due to a decrease in the cost of heating fuel from fiscal year 2007 to fiscal year 2008.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

East Muskingum Local School District, Ohio

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

Table 3

| | Total Cost of Services 2008 | Net Cost of Services 2008 | Total Cost of Services 2007 | Net Cost of Services 2007 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction: | | | | |
| Regular | \$8,464,199 | \$7,299,397 | \$8,955,100 | \$7,974,377 |
| Special | 1,464,784 | 498,947 | 1,780,925 | 761,515 |
| Vocational | 251,415 | 203,124 | 249,448 | 204,996 |
| Intervention | 11,499 | (1,990) | 11,736 | 1,689 |
| Support Services: | | | | |
| Pupils | 379,777 | 372,045 | 401,434 | 392,184 |
| Instructional Staff | 1,166,723 | 872,230 | 931,565 | 662,629 |
| Board of Education | 53,685 | 53,685 | 72,096 | 72,096 |
| Administration | 1,945,472 | 1,917,676 | 2,049,138 | 2,018,419 |
| Fiscal | 394,640 | 393,900 | 409,113 | 408,576 |
| Operation and Maintenance of Plant | 1,654,303 | 1,490,829 | 1,966,928 | 1,800,816 |
| Pupil Transportation | 1,247,647 | 1,222,372 | 1,387,858 | 1,361,537 |
| Central | 149,490 | 123,872 | 156,808 | 136,676 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,001,503 | 89,677 | 1,016,708 | 102,671 |
| Extracurricular Activities | 486,287 | 286,073 | 470,396 | 258,159 |
| Interest | 349,473 | 349,473 | 353,614 | 353,614 |
| Total Expenses | <u>\$19,020,897</u> | <u>\$15,171,310</u> | <u>\$20,212,867</u> | <u>\$16,509,954</u> |

As shown from the table above, the net cost of services has remained consistent at 80 percent of the total cost of services. Instructional programs comprise approximately 54 percent of total governmental program expenses. Of the instructional expenses, approximately 83 percent is for regular instruction, 14 percent for special instruction, and 3 percent for vocational and intervention instructions.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 74 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,072,303, expenditures of \$18,548,693, other financing sources and uses of \$5,717, and a combined net change in fund balances of (\$470,673). The largest change was in the General Fund, a decrease in fund balance of \$609,422.

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 year 2008, the School District amended its General Fund appropriations, but not significantly.

East Muskingum Local School District, Ohio

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

For the General Fund, budget basis revenues were \$353,845 above final estimates of \$15,764,870. Of this difference, most was due to over underestimating tuition and fees to be received.

The School District's ending General Fund budgetary basis balance was \$733,459 above the final estimate.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$29,909,562 invested in land, buildings and improvements, furniture, fixtures, and equipment, and vehicles. See Note 8 for more detailed information of the School District's capital assets.

Debt

At June 30, 2008, the School District had \$6,084,896 in general obligation bonds outstanding, including \$271,896 in accumulated accretion, with \$295,000 due within one year, and \$437,234 in Energy Conservation Notes, with \$25,480 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The Energy Conservation Notes were issued for geothermal heating and cooling improvements to Perry Elementary. The notes will be fully repaid by fiscal year 2021. During fiscal year 2008, the School District made principal payments in the amount of \$280,000 on the general obligation bonds and \$24,383 on the Energy Conservation Notes. The School District had capital leases outstanding at June 30, 2008 in the amount of \$38,708 with \$17,467 due in one year. See Note 14 for more detailed information about the School District's debt.

Economic Factors

The School District ended fiscal year 2008 with a negative cash flow. Future revenues are affected by the elimination of the three year averaging for ADM, accelerated phase out of personal property tax, and the reduction of the bus subsidy by 47 percent. Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Lottie Ransbottom, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at lransbottom@east-muskingum.k12.oh.us.

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East Muskingum Local School District, Ohio
Statement of Net Assets
June 30, 2008

| | Primary Government <u>Governmental Activities</u> | Component Unit <u>East Muskingum Academy</u> |
|--|---|--|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$6,770,757 | \$0 |
| Cash and Cash Equivalents in Segregated Accounts | 862 | 0 |
| Accounts Receivable | 5,859 | 0 |
| Accrued Interest Receivable | 31,948 | 0 |
| Intergovernmental Receivable | 278,294 | 0 |
| Inventory Held for Resale | 6,663 | 0 |
| Materials and Supplies Inventory | 120,188 | 0 |
| Prepaid Items | 7,848 | 0 |
| Property Taxes Receivable | 6,602,127 | 0 |
| Payment in Lieu of Taxes Receivable | 328,166 | 0 |
| Nondepreciable Capital Assets | 144,115 | 0 |
| Depreciable Capital Assets, Net | 29,765,447 | 0 |
| Total Assets | <u>44,062,274</u> | <u>0</u> |
| Liabilities | | |
| Matured Compensated Absences Payable | 46,406 | 0 |
| Matured Longevity Benefits Payable | 82,215 | 0 |
| Accounts Payable | 79,407 | 0 |
| Accrued Wages and Benefits Payable | 1,447,789 | 0 |
| Accrued Interest Payable | 30,192 | 0 |
| Intergovernmental Payable | 409,165 | 0 |
| Claims Payable | 120,000 | 0 |
| Deferred Revenue | 5,239,859 | 4,697 |
| Vacation Benefits Payable | 56,371 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 507,294 | 0 |
| Due In More Than One Year | 9,000,615 | 0 |
| Total Liabilities | <u>17,019,313</u> | <u>4,697</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 23,620,620 | 0 |
| Restricted for: | | |
| Capital Projects | 1,667,802 | 0 |
| Debt Service | 391,726 | 0 |
| Unclaimed Monies | 3,271 | 0 |
| Bus Purchase | 25,275 | 0 |
| Classroom Facilities Maintenance | 112,433 | 0 |
| Other Purposes | 215,274 | 0 |
| Unrestricted (Deficit) | 1,006,560 | (4,697) |
| Total Net Assets | <u>\$27,042,961</u> | <u>(\$4,697)</u> |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2008

| | Program Revenues | | | | Net Revenue (Expense) and Change in Net Assets | |
|---|---------------------|-------------------------|--|--|--|-------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions, and Interest | Capital Grants, Contributions, and Interest | Primary Government | |
| | | | | | Governmental Activities | Component Unit |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$8,464,199 | \$1,033,894 | \$130,908 | \$0 | (\$7,299,397) | \$0 |
| Special | 1,464,784 | 0 | 965,837 | 0 | (498,947) | 0 |
| Vocational | 251,415 | 0 | 48,291 | 0 | (203,124) | 0 |
| Intervention | 11,499 | 0 | 13,489 | 0 | 1,990 | 0 |
| Support Services: | | | | | | |
| Pupils | 379,777 | 0 | 7,732 | 0 | (372,045) | 0 |
| Instructional Staff | 1,166,723 | 0 | 294,493 | 0 | (872,230) | 0 |
| Board of Education | 53,685 | 0 | 0 | 0 | (53,685) | 0 |
| Administration | 1,945,472 | 0 | 27,796 | 0 | (1,917,676) | 0 |
| Fiscal | 394,640 | 0 | 740 | 0 | (393,900) | 0 |
| Operation and Maintenance of Plant | 1,654,303 | 8,803 | 55,950 | 98,721 | (1,490,829) | 0 |
| Pupil Transportation | 1,247,647 | 0 | 0 | 25,275 | (1,222,372) | 0 |
| Central | 149,490 | 0 | 25,618 | 0 | (123,872) | 0 |
| Operation of Non-Instructional Services: | | | | | | |
| Food Service Operations | 1,001,503 | 527,347 | 384,479 | 0 | (89,677) | 0 |
| Extracurricular Activities | 486,287 | 200,214 | 0 | 0 | (286,073) | 0 |
| Interest | 349,473 | 0 | 0 | 0 | (349,473) | 0 |
| Total Primary Government | <u>\$19,020,897</u> | <u>\$1,770,258</u> | <u>\$1,955,333</u> | <u>\$123,996</u> | <u>(15,171,310)</u> | <u>0</u> |
| Component Unit | | | | | | |
| East Muskingum Academy | <u>\$176,639</u> | <u>\$0</u> | <u>\$167,090</u> | <u>\$0</u> | <u>0</u> | <u>(9,549)</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 3,888,471 | 0 |
| Capital Outlay | | | | | 392,938 | 0 |
| Debt Service | | | | | 401,837 | 0 |
| Capital Maintenance | | | | | 68,761 | 0 |
| Grants and Entitlements not | | | | | | |
| Restricted to Specific Programs | | | | | 9,314,546 | 3,000 |
| Investment Earnings | | | | | 224,782 | 0 |
| Gain on Sale of Capital Assets | | | | | 5,717 | 0 |
| Miscellaneous | | | | | 128,691 | 0 |
| Total General Revenues | | | | | <u>14,425,743</u> | <u>3,000</u> |
| Change in Net Assets | | | | | (745,567) | (6,549) |
| Net Assets Beginning of Year <i>(Restated - See Note 3)</i> | | | | | <u>27,788,528</u> | <u>1,852</u> |
| Net Assets End of Year <i>(Deficit)</i> | | | | | <u>\$27,042,961</u> | <u>(\$4,697)</u> |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2008

| | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,880,332 | \$682,453 | \$1,618,954 | \$5,181,739 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 0 | 862 | 862 |
| Accounts Receivable | 5,603 | 0 | 256 | 5,859 |
| Intergovernmental Receivable | 51,920 | 0 | 226,374 | 278,294 |
| Accrued Interest Receivable | 31,948 | 0 | 0 | 31,948 |
| Inventory Held for Resale | 0 | 0 | 6,663 | 6,663 |
| Materials and Supplies Inventory | 117,831 | 0 | 2,357 | 120,188 |
| Prepaid Items | 7,687 | 0 | 161 | 7,848 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 19,288 | 0 | 0 | 19,288 |
| Property Taxes Receivable | 5,363,864 | 541,302 | 696,961 | 6,602,127 |
| Payment in Lieu of Taxes Receivable | 263,613 | 32,949 | 31,604 | 328,166 |
| Total Assets | \$8,742,086 | \$1,256,704 | \$2,584,192 | \$12,582,982 |
| Liabilities | | | | |
| Matured Compensated Absences Payable | \$46,406 | \$0 | \$0 | \$46,406 |
| Matured Longevity Benefits Payable | 82,215 | 0 | 0 | 82,215 |
| Accounts Payable | 63,223 | 7,590 | 8,594 | 79,407 |
| Accrued Wages and Benefits Payable | 1,331,614 | 0 | 116,175 | 1,447,789 |
| Intergovernmental Payable | 379,054 | 0 | 30,111 | 409,165 |
| Deferred Revenue | 5,122,791 | 525,012 | 758,876 | 6,406,679 |
| Total Liabilities | 7,025,303 | 532,602 | 913,756 | 8,471,661 |
| Fund Balances | | | | |
| Reserved for Encumbrances | 295,432 | 216,256 | 13,175 | 524,863 |
| Reserved for Unclaimed Monies | 3,271 | 0 | 0 | 3,271 |
| Reserved for Bus Purchase | 25,275 | 0 | 0 | 25,275 |
| Reserved for Property Taxes | 518,835 | 49,239 | 65,914 | 633,988 |
| Unreserved: | | | | |
| Undesignated, Reported in: | | | | |
| General Fund | 873,970 | 0 | 0 | 873,970 |
| Special Revenue Funds | 0 | 0 | 464,253 | 464,253 |
| Debt Service Funds | 0 | 0 | 282,897 | 282,897 |
| Capital Projects Funds | 0 | 458,607 | 844,197 | 1,302,804 |
| Total Fund Balances | 1,716,783 | 724,102 | 1,670,436 | 4,111,321 |
| Total Liabilities and Fund Balances | \$8,742,086 | \$1,256,704 | \$2,584,192 | \$12,582,982 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | | 29,909,562 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | | | |
| Property Taxes | | | 728,280 | |
| Payment in Lieu of Taxes | | | 328,166 | |
| Accrued Interest Receivable | | | 14,149 | |
| Grants | | | 96,225 | 1,166,820 |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | | | 1,449,730 |
| Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds. | | | | (30,192) |
| Vacation Benefits Payable is recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | | | | (56,371) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: | | | | |
| General Obligation Bonds | | | (5,813,000) | |
| Accretion on Bonds | | | (271,896) | |
| Energy Conservation Notes | | | (437,234) | |
| Longevity Benefits Payable | | | (1,802,896) | |
| Compensated Absences | | | (1,144,175) | |
| Capital Leases | | | (38,708) | (9,507,909) |
| Net Assets of Governmental Activities | | | | \$27,042,961 |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

| | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$3,632,684 | \$361,701 | \$447,587 | \$4,441,972 |
| Payment in Lieu of Taxes | 78,901 | 9,814 | 8,834 | 97,549 |
| Intergovernmental | 9,920,669 | 73,046 | 1,393,262 | 11,386,977 |
| Interest | 216,992 | 0 | 29,864 | 246,856 |
| Tuition and Fees | 1,033,894 | 0 | 0 | 1,033,894 |
| Extracurricular Activities | 0 | 0 | 200,214 | 200,214 |
| Rentals | 8,803 | 0 | 0 | 8,803 |
| Charges for Services | 0 | 0 | 527,347 | 527,347 |
| Miscellaneous | 14,971 | 3,561 | 110,159 | 128,691 |
| Total Revenues | <u>14,906,914</u> | <u>448,122</u> | <u>2,717,267</u> | <u>18,072,303</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,882,865 | 149,977 | 158,755 | 8,191,597 |
| Special | 1,041,122 | 0 | 345,841 | 1,386,963 |
| Vocational | 237,138 | 0 | 0 | 237,138 |
| Intervention | 0 | 0 | 11,499 | 11,499 |
| Support Services: | | | | |
| Pupils | 367,662 | 0 | 0 | 367,662 |
| Instructional Staff | 842,066 | 0 | 297,190 | 1,139,256 |
| Board of Education | 29,815 | 0 | 0 | 29,815 |
| Administration | 1,878,251 | 0 | 28,104 | 1,906,355 |
| Fiscal | 356,015 | 12,612 | 15,204 | 383,831 |
| Operation and Maintenance of Plant | 1,403,009 | 46,130 | 168,386 | 1,617,525 |
| Pupil Transportation | 1,135,338 | 0 | 0 | 1,135,338 |
| Central | 123,290 | 0 | 25,918 | 149,208 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 0 | 0 | 856,714 | 856,714 |
| Extracurricular Activities | 192,317 | 0 | 283,991 | 476,308 |
| Capital Outlay | 0 | 6,850 | 30,905 | 37,755 |
| Debt Service: | | | | |
| Principal Retirement | 19,409 | 0 | 304,383 | 323,792 |
| Interest and Fiscal Charges | 3,661 | 0 | 294,276 | 297,937 |
| Total Expenditures | <u>15,511,958</u> | <u>215,569</u> | <u>2,821,166</u> | <u>18,548,693</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(605,044)</u> | <u>232,553</u> | <u>(103,899)</u> | <u>(476,390)</u> |
| Other Financing Sources (Use) | | | | |
| Transfers In | 0 | 0 | 10,095 | 10,095 |
| Proceeds from Sale of Capital Assets | 5,717 | 0 | 0 | 5,717 |
| Transfers Out | (10,095) | 0 | 0 | (10,095) |
| Total Other Financing Sources (Use) | <u>(4,378)</u> | <u>0</u> | <u>10,095</u> | <u>5,717</u> |
| Net Change in Fund Balances | (609,422) | 232,553 | (93,804) | (470,673) |
| Fund Balances Beginning of Year (<i>Restated - See Note 3</i>) | <u>2,326,205</u> | <u>491,549</u> | <u>1,764,240</u> | <u>4,581,994</u> |
| Fund Balances End of Year | <u>\$1,716,783</u> | <u>\$724,102</u> | <u>\$1,670,436</u> | <u>\$4,111,321</u> |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
 Reconciliation of the Changes in Fund Balances of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2008

| | | |
|--|--------------------|---------------------------|
| Net Change in Fund Balances - Total Governmental Funds | | (\$470,673) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period: | | |
| Capital Asset Additions | 56,896 | |
| Current Year Depreciation | <u>(1,430,014)</u> | (1,373,118) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| Property Taxes | 310,035 | |
| Accrued Interest Receivable | 7,790 | |
| Payment in Lieu of Taxes | (97,549) | |
| Grants | <u>(22,966)</u> | 197,310 |
| Some capital assets were financed through capital leases. Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets. | | |
| | | 19,409 |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | |
| | | 304,383 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | 1,397 |
| Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds on a full accrual basis. | | |
| | | (52,933) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds: | | |
| Longevity Benefits Payable | (56,774) | |
| Vacation Benefits Payable | (7,448) | |
| Compensated Absences | <u>(32,493)</u> | (96,715) |
| 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 change of the internal service fund is reported with governmental activities. | | |
| | | <u>725,373</u> |
| Change in Net Assets of Governmental Activities | | <u><u>(\$745,567)</u></u> |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|---|--------------------|--------------------|--------------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$4,776,575 | \$4,776,575 | \$4,896,908 | \$120,333 |
| Payment in Lieu of Taxes | 80,000 | 80,000 | 78,901 | (1,099) |
| Intergovernmental | 9,812,932 | 9,812,932 | 9,874,071 | 61,139 |
| Interest | 223,838 | 223,838 | 192,441 | (31,397) |
| Tuition and Fees | 824,500 | 824,500 | 1,034,216 | 209,716 |
| Rentals | 10,166 | 10,166 | 8,803 | (1,363) |
| Charges for Services | 3,500 | 3,500 | 0 | (3,500) |
| Miscellaneous | 33,339 | 33,359 | 33,375 | 16 |
| Total Revenues | 15,764,850 | 15,764,870 | 16,118,715 | 353,845 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,339,706 | 8,322,979 | 8,043,072 | 279,907 |
| Special | 1,168,842 | 1,169,442 | 1,131,423 | 38,019 |
| Vocational | 246,838 | 246,838 | 241,958 | 4,880 |
| Support Services: | | | | |
| Pupils | 361,169 | 361,569 | 365,607 | (4,038) |
| Instructional Staff | 895,955 | 895,957 | 841,964 | 53,993 |
| Board of Education | 43,695 | 43,695 | 30,114 | 13,581 |
| Administration | 1,823,634 | 1,815,860 | 1,898,280 | (82,420) |
| Fiscal | 332,489 | 332,489 | 358,342 | (25,853) |
| Operation and Maintenance of Plant | 1,604,521 | 1,597,021 | 1,526,540 | 70,481 |
| Pupil Transportation | 1,138,082 | 1,171,882 | 1,178,395 | (6,513) |
| Central | 128,235 | 150,023 | 129,641 | 20,382 |
| Extracurricular Activities | 222,788 | 204,238 | 192,760 | 11,478 |
| Debt Service: | | | | |
| Principal Retirement | 19,409 | 19,409 | 19,409 | 0 |
| Interest and Fiscal Charges | 3,661 | 3,661 | 3,661 | 0 |
| Total Expenditures | 16,329,024 | 16,335,063 | 15,961,166 | 373,897 |
| Excess of Revenues Over (Under) Expenditures | (564,174) | (570,193) | 157,549 | 727,742 |
| Other Financing Source (Use) | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 5,717 | 5,717 |
| Transfers Out | (10,095) | (10,095) | (10,095) | 0 |
| Total Other Financing Source (Use) | (10,095) | (10,095) | (4,378) | 5,717 |
| Net Change in Fund Balance | (574,269) | (580,288) | 153,171 | 733,459 |
| Fund Balance Beginning of Year | 2,065,928 | 2,065,928 | 2,065,928 | 0 |
| Prior Year Encumbrances Appropriated | 328,280 | 328,280 | 328,280 | 0 |
| Fund Balance End of Year | \$1,819,939 | \$1,813,920 | \$2,547,379 | \$733,459 |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fund Net Assets
Self-Insurance Internal Service Fund
June 30, 2008

| | <u>Medical-Dental Insurance</u> |
|--|-------------------------------------|
| Current Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,569,730 |
| Current Liabilities | |
| Claims Payable | <u>120,000</u> |
| Net Assets | |
| Unrestricted | <u><u>\$1,449,730</u></u> |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2008

| | Medical-Dental Insurance |
|------------------------------|-----------------------------|
| Operating Revenues | |
| Charges for Services | \$2,552,110 |
| Operating Expenses | |
| Purchased Services | 320,508 |
| Claims | 1,506,229 |
| Total Operating Expenses | 1,826,737 |
| Change in Net Assets | 725,373 |
| Net Assets Beginning of Year | 724,357 |
| Net Assets End of Year | \$1,449,730 |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

| | Medical-Dental Insurance |
|---|-----------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities: | |
| Cash Received from Interfund Services Provided | \$2,552,110 |
| Cash Payments to Suppliers for Services | (320,508) |
| Cash Payments for Claims | (1,764,862) |
| <i>Net Increase in Cash and Cash Equivalents</i> | 466,740 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 1,102,990 |
| <i>Cash and Cash Equivalents End of Year</i> | \$1,569,730 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income | \$725,373 |
| Adjustments to Reconcile Changes in Assets and Liabilities: | |
| Decrease in Claims Payable | (258,633) |
| <i>Net Cash Provided by Operating Activities</i> | \$466,740 |

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

Assets

| | |
|--|------------------------|
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$29,572</u></u> |
|--|------------------------|

Liabilities

| | |
|-----------------|------------------------|
| Due to Students | <u><u>\$29,572</u></u> |
|-----------------|------------------------|

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 1 - Description of the School District and Reporting Entity

The East 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 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 was established in 1958. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 106 classified employees and 153 certificated full-time teaching personnel who provide services to 2,188 students and other community members. The School District currently operates six instructional buildings, two administrative buildings, and four garage/storage buildings.

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 the 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 one component unit, the East Muskingum Academy.

Discretely Presented Component Unit. The component unit information on the Statement of Net Assets and the Statement of Activities identifies the financial data of the School District’s Component Unit, East Muskingum Academy (EMA). It is reported separately to emphasize that it is legally separate from the School District.

East Muskingum Academy. The East Muskingum Academy (EMA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314, specifically Section 3314.03. EMA’s mission, under a contractual agreement with the School District (EMA’s sponsor), 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

At June 30, 2008, the Board of Directors consisted of five members appointed from the public by the School District who represented the Muskingum County community: two are public officials while the remaining three are community leaders. The School District 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 EMA is a component unit of the Sponsor, as it would be misleading to exclude the EMA. Separately issued financial statements can be obtained from the East Muskingum Academy, 13505 John Glenn School Road, New Concord, Ohio 43762.

The School District participates in four organizations which are defined as jointly governed organizations and three insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Mid-East Career and Technology Centers, the Metropolitan Educational Council (MEC), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 15 and 17 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 internal service fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

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 statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, does not have any business-type activities.

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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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 and the Permanent Improvement Capital Projects Fund are the only major fund of the School District:

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.

Permanent Improvement Fund The Permanent Improvement Capital Projects Fund of the School District is used to account for permanent improvement levy proceeds which can be used for expenditures related to instructional materials and expenditures related to acquiring, constructing, and improving school facilities.

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 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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.

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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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, payment 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, 2008, but which were levied to finance fiscal year 2009 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.

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.

The School District has a separate bank account for athletic monies. Since these monies are not deposited in the School District's treasury, this interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts".

During fiscal year 2008, investments were limited to 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 2008 amounted to \$216,992, which includes \$98,417 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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

All of the School District's capital assets are general capital assets resulting 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year.) Donated fixed assets are recorded at their 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, 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 | 10-50 years |
| Furniture, Fixtures, and Equipment | 5-20 years |
| Vehicles | 10-15 years |

I. 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 externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents for unclaimed monies and bus purchases. During fiscal year 2008, the reserve for bus purchase includes an intergovernmental receivable.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and longevity benefits 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 and general obligation bonds are recognized as a liability on the governmental fund financial statements when due.

L. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements.

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

M. 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, unclaimed monies, property taxes, 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. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved. The reserve for bus purchase represents unexpended revenues restricted for the purchase of buses.

N. 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 enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes include resources restricted for 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.

O. 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.

P. 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.

Q. Estimates

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

R. 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. Any budgetary modifications at this level may only be made by resolution of the Board of Education. 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.

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance and Net Assets

A. Changes in Accounting Principles

For fiscal year 2008, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and the STRS post-employment healthcare plans in the amount of \$25,642 and \$10,036, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Fund Balance and Net Assets

During 2008, the School District determined that revenue and receivables related to the School District's payment in lieu of taxes receivable were misstated.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

This adjustment had the following effect on fund balance as previously reported at June 30, 2007.

| | <u>General Fund</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---------------------|----------------------------------|---|---|
| Fund Balance as Previously Reported | \$2,405,112 | \$501,691 | \$1,773,108 | \$4,679,911 |
| Payment in Lieu of Taxes Receivable | <u>(78,907)</u> | <u>(10,142)</u> | <u>(8,868)</u> | <u>(97,917)</u> |
| Adjusted Fund Balance, June 30, 2007 | <u>\$2,326,205</u> | <u>\$491,549</u> | <u>\$1,764,240</u> | <u>\$4,581,994</u> |

The adjustment had the following effect on net assets as previously reported at June 30, 2007.

| | <u>Governmental Activities</u> |
|--|--------------------------------|
| Governmental Activities Net Assets as Previously Reported | \$27,460,730 |
| Payment in Lieu of Taxes Receivable | <u>327,798</u> |
| Adjusted Governmental Activities Net Assets, June 30, 2007 | <u>\$27,788,528</u> |

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 Balance - Budget and Actual (Non-GAAP 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).

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund.

| Net Change in Fund Balance | |
|---|------------------|
| GAAP Basis | (\$609,422) |
| Net Adjustment for Revenue Accruals | 1,205,552 |
| Net Adjustment for Expenditure Accruals | (94,299) |
| Beginning of Fiscal Year: | |
| Fair Value Adjustment for Investments | 9,402 |
| Prepaid Items | (7,202) |
| End of Fiscal Year: | |
| Fair Value Adjustment for Investments | (3,153) |
| Prepaid Items | 7,687 |
| Adjustment for Encumbrances | (355,394) |
| Budget Basis | <u>\$153,171</u> |

Note 5 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active deposits are public deposits necessary to meet current demands upon the School District treasury. Active 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.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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;

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,730,419 of the School District's bank balance of \$3,930,419 was exposed to custodial credit risk because it was uninsured and collateralized. Although all 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.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments: As of June 30, 2008, the School District had the following investments.

| | <u>Fair Value</u> | <u>Maturity</u> |
|---------------------------------------|--------------------|-----------------|
| Federal Home Loan Bank Bond | \$153,421 | 8/28/2012 |
| Federal Home Loan Mtg. Corp. Bond | 201,290 | 10/15/2012 |
| Federal Home Loan Mtg. Corp. Bond | 552,904 | 11/15/2012 |
| Federal Home Loan Mtg. Corp. Bond | 251,288 | 12/15/2012 |
| Federal National Mortgage Assoc. Bond | 498,125 | 1/14/2013 |
| Federal National Mortgage Assoc. Bond | 497,345 | 2/16/2013 |
| Federal Home Loan Mtg. Corp. Bond | 297,369 | 3/18/2013 |
| Federal Home Loan Mtg. Corp. Bond | 495,105 | 4/16/2013 |
| | <u>\$2,946,847</u> | |

Interest Rate Risk

The School District's investment policy addresses interest rate to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The stated intent of the policy is to avoid the need to sell securities prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

The Federal Home Loan Bank Bonds, the Federal Home Loan Mortgage Corporation Bonds, and the Federal National Mortgage Association Bonds carry a rating of AAA by Standard and Poor's. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 5% is invested in Federal Home Loan Bank Bonds, 61% is invested in Federal Home Loan Mortgage Corporation Bonds, and 34% is invested in Federal National Mortgage Association Bonds.

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.

Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2008 represent the collection of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed values as of January 1, 2007, 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 2008 represent the collection of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien on December 31, 2006, were levied after April 1, 2007, and are collected in 2008 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 revenue received in calendar 2008 (other than public utility property tax) represents the collection of calendar year 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessed percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payment 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, personal property and public utility taxes which are measurable as of June 30, 2008 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 was levied to finance current fiscal year operations. The amount available as an advance at June 30, 2008, was \$633,988. \$518,835 was available in the General Fund, \$9,374 in the Classroom Facilities Maintenance Special Revenue Fund, \$56,540 in the Debt Service Fund, and \$49,239 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2007, was \$2,232,630. \$1,783,059 was available in the General Fund, \$33,327 in the Classroom Facilities Maintenance Special Revenue Fund, \$238,350 in the Debt Service Fund, and \$177,894 in the Permanent Improvement Capital Projects Fund.

On a full accrual basis, collectible delinquent property taxes and the amount available as an advance have been recorded as a receivable and revenue while the rest of the receivable is deferred. On a modified accrual basis, only the amount available as an advance is recognized as revenue.

The assessed values upon which the fiscal year 2008 taxes were collected are:

| | 2007 Second- Half Collections | | 2008 First- Half Collections | |
|---|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Real Estate | \$214,353,190 | 88.83% | \$214,261,590 | 89.30% |
| Public Utility Personal | 18,477,250 | 7.65% | 17,917,770 | 7.47% |
| General Business Personal | 8,482,837 | 3.52% | 7,760,495 | 3.23% |
| Total | <u>\$241,313,277</u> | <u>100.00%</u> | <u>\$239,939,855</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$38.46 | | \$38.66 | |

Note 7 - Receivables

Receivables at June 30, 2008, consisted of property taxes, accounts (tuition and miscellaneous), intergovernmental grants and payment in lieu of taxes. 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 except property taxes and payment in lieu of taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

A summary of principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|--------------------------------|-------------------------|
| Governmental Activities | |
| School Bus Reimbursement | \$9,258 |
| SF-3 Adjustment | 37,340 |
| Title I | 67,629 |
| Title II-A | 35,700 |
| Title II-D | 3,034 |
| Title IV-A | 6,959 |
| Title V | 4,320 |
| Title VI-B IDEA | 108,732 |
| Miscellaneous | <u>5,322</u> |
| Total | <u><u>\$278,294</u></u> |

Payment in Lieu of Taxes

Muskingum County has entered into various enterprise zone agreements. On September 20, 1999, Muskingum County entered into an enterprise zone agreement with Plaskolite Inc. for the purpose of constructing a new manufacturing facility. On May 30, 2000, Muskingum County entered into an enterprise zone agreement with White Castle System, Inc. and Almanac II, LLC for the purpose of constructing a processing facility. On April 27, 2000, Muskingum County entered into an enterprise zone agreement with General Warehouse & Transportation Co. and Colgate-Palmolive Co. for the purpose of expanding an existing warehouse. On March 23, 2000, Muskingum County entered into an enterprise zone agreement with SEOIL Industrial Ltd for the purpose of constructing a new manufacturing facility.

To encourage these improvements, Muskingum County granted the property owners a 100 percent exemption from paying real and personal property taxes on the new construction; however, the property owners are required to make payment in lieu of taxes. The School District has agreed to these projects and is being made whole for lost real and personal property taxes by receiving payments in lieu of taxes in an amount equal to the real and personal property taxes that otherwise would have been due each year, pursuant to the financing agreement. Subsequent to the phase out of tangible personal property taxes, the School District will continue to receive payments in lieu of taxes in an amount equal to real property that otherwise would have been due each year. The property owners make payment in lieu of taxes to Muskingum County which is distributed to the School District. These payments are being used to finance improvements and will continue over ten years.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

| | Balance | | | Balance |
|--|---------------|---------------|-----------|---------------|
| | June 30, 2007 | Additions | Deletions | June 30, 2008 |
| Nondepreciable Capital Assets | | | | |
| Land | \$144,115 | \$0 | \$0 | \$144,115 |
| Depreciable Capital Assets | | | | |
| Buildings and Improvements | 40,971,245 | 51,708 | 0 | 41,022,953 |
| Furniture, Fixtures, and Equipment | 1,605,532 | 5,188 | (92,266) | 1,518,454 |
| Vehicles | 2,087,538 | 0 | (160,619) | 1,926,919 |
| Total Depreciable Capital Assets | 44,664,315 | 56,896 | (252,885) | 44,468,326 |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | (11,246,400) | (1,260,324) | 0 | (12,506,724) |
| Furniture, Fixtures, and Equipment | (930,931) | (106,088) | 92,266 | (944,753) |
| Vehicles | (1,348,419) | (63,602) | 160,619 | (1,251,402) |
| Total Accumulated Depreciation | (13,525,750) | (1,430,014) * | 252,885 | (14,702,879) |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 31,138,565 | (1,373,118) | 0 | 29,765,447 |
| Governmental Activities Capital Assets, Net | \$31,282,680 | (\$1,373,118) | \$0 | \$29,909,562 |

* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|--------------------|
| Instruction: | |
| Regular | \$570,326 |
| Special | 110,822 |
| Vocational | 19,096 |
| Support Services: | |
| Pupils | 19,096 |
| Instructional Staff | 50,275 |
| Board of Education | 23,870 |
| Administration | 164,725 |
| Fiscal | 15,221 |
| Operation and Maintenance of Plant | 105,402 |
| Pupil Transportation | 178,177 |
| Central | 4,774 |
| Extracurricular | 9,979 |
| Food Service Operations | 158,251 |
| Total Depreciation Expense | <u>\$1,430,014</u> |

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 9 - 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 2008, 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 School District pays this annual premium to the OSP (see Note 17).

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

| | |
|---|--------------|
| Building and Contents-replacement cost (\$1,000 deductible) | \$56,658,248 |
| Audio Visual Equipment (\$1,000 deductible) | 300,000 |
| Miscellaneous Equipment (\$1,000 deductible) | 600,000 |
| Musical Instruments (\$1,000 deductible) | 500,000 |
| Electronic Equipment (\$1,000 deductible) | 300,000 |
| Employee Theft (\$1,000 deductible) | 25,000 |
| Forgery or Alteration (\$1,000 deductible) | 25,000 |
| Automobile Liability (\$1,000 deductible) | 1,000,000 |
| Auto Medical Payments | 5,000 |
| General Liability | |
| Per occurrence | 1,000,000 |
| Aggregate Per Year | 3,000,000 |
| Fire Damage | 500,000 |
| Medical Expense | 10,000 |
| Employee Benefits Liability | |
| Per occurrence | 1,000,000 |
| Aggregate Per Year | 3,000,000 |
| Employer's Liability | 1,000,000 |
| Educational Legal Liability Limit (\$2,500 deductible) | 1,000,000 |
| Aggregate Per Year | 3,000,000 |

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

B. Worker's Compensation

For fiscal year 2008, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). 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. 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

C. Employee Medical/Surgical and Dental 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 \$120,000 reported in the internal service fund at June 30, 2008, 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 purchases an aggregate stop-loss coverage policy in the amount of \$2,777,373. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$75,000 annually.

Changes in the fund's claims liability amount in fiscal years 2007 and 2008 were:

| | Balance at Beginning of Year | Current Year Claims | Prescription Claims Rebates | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|--------------------------------|-------------------|---------------------------|
| 2007 | \$357,026 | \$1,976,184 | (\$2,077) | \$1,952,500 | \$378,633 |
| 2008 | 378,633 | 1,506,229 | 0 | 1,764,862 | 120,000 |

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Board policy and State laws. Classified employees and administrators who are contracted to work 260 days earn ten to twenty-five days of vacation per year, depending upon length of service. Unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year. 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 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees.

B. Life and Vision Insurance

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

The School District provides vision insurance to employees through Vision Service Plan.

C. Longevity Benefits Payable

Employees who retire are eligible for a longevity/service benefit. Employees that have completed between one and ten years of service at the School District upon retirement, are paid a longevity benefit payment equal to one percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Employees that have completed between eleven and twenty years of service at the School District upon retirement, are paid a longevity benefit payment equal to one and one quarter percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District. Employees that have completed over twenty years of service at the School District upon retirement, are paid a longevity benefit payment equal to one and one half percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District. Retiree's must notify the School District by April 1 of each year as to their intent to retire and to apply for the retirement/longevity benefit. Payment of the retirement/longevity benefit is limited to five percent of the number of employees in each year based upon seniority. The benefit is paid in one lump sum at the time of retirement from the fund and function that pays the employees' salaries.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$176,910, \$196,494, and \$200,854, respectively; 46.16 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, were \$1,068,635, \$893,822, and \$985,716, respectively; 83.94 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$16,680 made by the School District and \$22,258 made by the plan members.

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, 2008, there are four employees who have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$124,306, \$101,382, and \$95,797, respectively; 40.10 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$13,157, \$17,291, and \$20,286, respectively; 47.84 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$82,203, \$69,779, and \$76,739, respectively; 83.94 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 13 - Capitalized Leases

The School District has 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 from regular instruction on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual to principal and interest expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund.

The agreements provide for minimum annual rental payments as follows:

| Fiscal Year Ending June 30, | Governmental Activities |
|---|----------------------------|
| 2009 | \$19,732 |
| 2010 | 19,062 |
| 2011 | 3,177 |
| Total Minimum Lease Payments | 41,971 |
| Less: Amount Representing Interest | (3,263) |
| Present Value of Minimum Lease Payments | <u>\$38,708</u> |

The copiers have been originally capitalized in the amount of \$96,124, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation as of June 30, 2008 was \$57,597, leaving a current book value of \$38,527. Principal payments in fiscal year 2008 totaled \$19,409 in the General Fund.

Note 14 - Long-Term Obligations

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

| | Outstanding 06/30/07 | Additions | Reductions | Outstanding 06/30/08 | Due Within One Year |
|--|-------------------------|------------------|------------------|-------------------------|------------------------|
| Governmental Activities: | | | | | |
| 2001 School Facilities Current Interest | | | | | |
| Serial Bonds - 4.85% | \$3,030,000 | \$0 | \$280,000 | \$2,750,000 | \$295,000 |
| 2001 School Facilities Current Interest Term | | | | | |
| Bonds - 5% | 2,850,000 | 0 | 0 | 2,850,000 | 0 |
| 2001 School Facilities Capital Appreciation | | | | | |
| Bonds - 11.9% | 213,000 | 0 | 0 | 213,000 | 0 |
| Accumulated Accretion | 218,963 | 52,933 | 0 | 271,896 | 0 |
| Total General Obligation Bonds | <u>6,311,963</u> | <u>52,933</u> | <u>280,000</u> | <u>6,084,896</u> | <u>295,000</u> |
| 2007 House Bill 264 Energy Conservation | | | | | |
| Notes - 4.5% | 461,617 | 0 | 24,383 | 437,234 | 25,480 |
| Total Long-Term Debt | <u>6,773,580</u> | <u>52,933</u> | <u>304,383</u> | <u>6,522,130</u> | <u>320,480</u> |
| Capital Leases | 58,117 | 0 | 19,409 | 38,708 | 17,467 |
| Compensated Absences Payable | 1,111,682 | 84,674 | 52,181 | 1,144,175 | 46,256 |
| Longevity Benefits Payable | 1,746,122 | 147,384 | 90,610 | 1,802,896 | 123,091 |
| Total Long-Term Obligations | <u>\$9,689,501</u> | <u>\$284,991</u> | <u>\$466,583</u> | <u>\$9,507,909</u> | <u>\$507,294</u> |

Compensated absences and the longevity benefits payable will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service special revenue fund. The capital leases will be paid from the General Fund.

School Facilities General Obligation Bonds - On April 19, 2001, the School District issued \$7,443,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund. 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 bond issue consists of serial, term, and capital appreciation bonds. The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent 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 |
|-------|------------------------------------|
| 2018 | \$420,000 |
| 2019 | 440,000 |
| Total | <u>\$860,000</u> |

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

The remaining principal amount of such Current Interest Bonds (\$460,000) will mature at stated maturity on December 1, 2020.

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption at a redemption price of 100 percent 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> |
|-------------|--|
| 2021 | \$485,000 |
| 2022 | 510,000 |
| Total | <u>\$995,000</u> |

The remaining principal amount of such Current Interest Bonds (\$535,000) will mature at stated maturity on December 1, 2023.

The capital appreciation bonds mature December 1, 2009 and 2010. At maturity all compounded interest is paid. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$610,000. The fiscal year 2008 accretion amount is \$52,933.

Principal and interest payments to retire general obligation debt outstanding at June 30, 2008 are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|--------------------|--------------------|--------------------|
| 2009 | \$295,000 | \$261,929 | \$556,929 |
| 2010 | 112,649 | 448,306 | 560,955 |
| 2011 | 100,351 | 460,604 | 560,955 |
| 2012 | 305,000 | 249,321 | 554,321 |
| 2013 | 320,000 | 235,568 | 555,568 |
| 2014-2018 | 1,830,000 | 937,634 | 2,767,634 |
| 2019-2023 | 2,315,000 | 434,375 | 2,749,375 |
| 2024 | 535,000 | 13,375 | 548,375 |
| Total | <u>\$5,813,000</u> | <u>\$3,041,112</u> | <u>\$8,854,112</u> |

School Energy Conservation Notes – On August 9, 2006, the School District issued \$497,079 in unvoted Energy Conservation Notes, under the authority of Ohio Revised Code sections 133.06(G) and 3313.46(B). The Energy Conservation Notes were issued for the purpose of purchasing and installing energy conservation measures. These energy conservation measures include geothermal cooling energy operational improvements to Perry Elementary. The energy conservation notes mature January 15, 2021. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2008, are as follows:

| Year | Principal | Interest | Total |
|-----------|------------------|------------------|------------------|
| 2009 | \$25,480 | \$19,675 | \$45,155 |
| 2010 | 26,626 | 18,529 | 45,155 |
| 2011 | 27,825 | 17,331 | 45,156 |
| 2012 | 29,077 | 16,079 | 45,156 |
| 2013 | 30,385 | 14,770 | 45,155 |
| 2014-2018 | 173,710 | 52,068 | 225,778 |
| 2019-2021 | 124,131 | 11,335 | 135,466 |
| Total | <u>\$437,234</u> | <u>\$149,787</u> | <u>\$587,021</u> |

The School District's overall legal debt margin was \$15,284,856, with an unvoted debt margin of \$231,277 at June 30, 2008.

Note 15 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. 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 TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School.

During 2008, the School District paid \$69,854 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2008, the School District made no contributions to the Center. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of 166 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2008, the School District made a payment of \$793 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Denise Canfield, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, OH 43219.

D. Coalition of Rural and Appalachian Schools (CORAS)

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2008. To obtain financial information write to the Coalition of Rural and Appalachian Schools, Dick Fisher, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 16 - Interfund Activity

During fiscal year 2008, the School District made a transfer from the General Fund to the Poverty Based Assistance Special Revenue Fund in the amount of \$10,095 to cover expenditures that were made by the Poverty Based Assistance Fund that the Ohio Department of Education deemed unallowable.

Note 17 - Insurance Purchasing Pools

A. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP)

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

B. Ohio School Plan (OSP)

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 twelve member Board of directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales and marketing.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

C. Ohio School Benefits Cooperative

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. On November 1, 2005, the School District elected to participate in the self-insured purchasing program for medical, prescription drug, and dental.

Note 18 - 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, 2008.

B. Litigation

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

Note 19 – 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 School District's General Fund or may be left in the account and used by the board to offset any budget deficit the School 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> |
|---|---------------------------|--------------------------------|
| Set-aside Cash Balance as of June 30, 2007 | (\$290,487) | \$0 |
| Current Year Set-aside Requirement | 328,885 | 328,885 |
| Current Year Offsets | 0 | (1,080,937) |
| Qualifying Disbursements | <u>(562,267)</u> | <u>(319,872)</u> |
| Total | <u><u>(\$523,869)</u></u> | <u><u>(\$1,071,924)</u></u> |
| Balance Carried Forward to Future Fiscal Years | <u><u>(\$523,869)</u></u> | <u><u>\$0</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 excess in the textbook set-aside may be used to reduce the set-aside requirement in future years. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

Note 20 – East Muskingum Academy

A. Basis of Presentation

The East Muskingum Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The East Muskingum Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title | Grant Year | Federal CFDA Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|---|---------------|---------------------------|---------------------|---------------------|---------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Food Donation | 2008 | 10.550 | \$ | \$ 54,714 | \$ | \$ 54,714 |
| Nutrition Cluster: | | | | | | |
| School Breakfast Program | 2007 | 10.553 | 4,743 | | 4,743 | |
| | 2008 | | 54,224 | | 54,224 | |
| Total School Breakfast Program | | | 58,967 | 0 | 58,967 | 0 |
| National School Lunch Program | 2007 | 10.555 | 24,451 | | 24,451 | |
| | 2008 | | 264,082 | 0 | 264,082 | 0 |
| Total National School Lunch Program | | | 288,533 | | 288,533 | |
| Total Nutrition Cluster | | | 347,500 | 0 | 347,500 | 0 |
| Total United States Department of Agriculture | | | 347,500 | 54,714 | 347,500 | 54,714 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Title 1 Grants to Local Educational Agencies | 2007 | 84.010 | 31,682 | | 33,854 | |
| | 2008 | | 219,471 | | 210,899 | |
| Total Title 1 Grants to Local Educational Agencies | | | 251,153 | 0 | 244,753 | 0 |
| Special Education - Grants to States | 2007 | 84.027 | 44,182 | | 48,465 | |
| | 2008 | | 369,889 | | 367,690 | |
| Total Special Education - Grants to States | | | 414,071 | 0 | 416,155 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 2007 | 84.186 | | | | |
| | 2008 | | 773 | | | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | 773 | 0 | 0 | 0 |
| State Grants for Innovative Programs | 2007 | 84.298 | (1,052) | | | |
| | 2008 | | 3,401 | | 3,364 | |
| Total State Grants for Innovative Programs | | | 2,349 | | 3,364 | |
| Education Technology State Grants | 2007 | 84.318 | (343) | | | |
| | 2008 | | 2,152 | | 1,280 | |
| Total Education Technology State Grants | | | 1,809 | 0 | 1,280 | 0 |
| Improving Teacher Quality State Grants | 2007 | 84.367 | 12,083 | | 15,559 | |
| | 2008 | | 108,720 | | 99,488 | |
| Total Improving Teacher Quality State Grants | | | 120,803 | 0 | 115,047 | 0 |
| Total United States Department of Education | | | 790,958 | 0 | 780,599 | 0 |
| UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| Medical Assistance Program | 2008 | 93.778 | | | 43,223 | |
| Total United States Department of Health and Human Services | | | 0 | 0 | 43,223 | 0 |
| Total Federal Awards Receipts and Expenditures | | | \$ 1,138,458 | \$ 54,714 | \$ 1,171,322 | \$ 54,714 |

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D – TRANSFERS

During fiscal year 2008, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the carryovers is as follows:

| CFDA Number | Program Title | Grant Year | Transfers Out | Transfers In |
|----------------|--|---------------|------------------|------------------|
| 84.010 | Title I Grants to Local Educational Agencies | 2007 | \$ 5,639 | |
| 84.010 | Title I Grants to Local Educational Agencies | 2008 | | \$ 5,639 |
| 84.027 | Special Education - Grants to States | 2007 | 5,818 | |
| 84.027 | Special Education - Grants to States | 2008 | | 5,818 |
| 84.298 | State Grants for Innovative Programs | 2007 | 1,052 | |
| 84.298 | State Grants for Innovative Programs | 2008 | | 1,052 |
| 84.318 | Education Technology State Grants | 2007 | 343 | |
| 84.318 | Education Technology State Grants | 2008 | | 343 |
| 84.367 | Improving Teacher Quality State Grants | 2007 | 7,917 | |
| 84.367 | Improving Teacher Quality State Grants | 2008 | | 7,917 |
| Totals | | | <u>\$ 20,769</u> | <u>\$ 20,769</u> |



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 Local School District
Muskingum County
13505 John Glenn School Drive
New Concord, Ohio 43762

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District'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 School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District'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 School District'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 School District'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 School District'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 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.

We noted certain matters that we reported to the School District's management in a separate letter dated March 26, 2009.

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Compliance and Other Matters

As part of reasonably assuring whether the School District'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 did note certain noncompliance or other matters that we reported to the School District's management in a separate letter dated March 26, 2009.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 26, 2009



Mary Taylor, CPA

Auditor of State

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

East Muskingum Local School District
Muskingum County
13505 John Glenn School Drive
New Concord, Ohio 43762

To the Board of Education:

Compliance

We have audited the compliance of the East 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 apply to each of its major federal programs for the year ended June 30, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2008. In a separate letter to the School District's management dated March 26, 2009, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated March 26, 2009.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 26, 2009

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE YEAR ENDED JUNE 30, 2008**

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 significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other significant deficiencies in internal control 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): | Nutrition Cluster: School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.555 |
| <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.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2007-001 | Ohio Admin. Code Section 117-2-02(C)(1) – At June 30, 2007, the appropriations as approved by the Board of Education did not agree to the appropriations entered into the appropriation ledger for the General, Permanent Improvement, Classroom Facilities, and Title I funds. | No | Partially Corrected; reissued in the management letter. |



Mary Taylor, CPA
Auditor of State

EAST 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
APRIL 16, 2009