



Dave Yost • Auditor of State



**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2012, 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, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2012, 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 February 4, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 4, 2013

## **East Muskingum Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities increased \$1,625,829.
- General revenues accounted for \$18,736,878 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,396,598 or 19 percent of total revenues of \$23,133,476.
- Capital assets decreased \$986,934 primarily due to current year depreciation which was offset by capital asset acquisitions.
- The School District had \$21,507,647 in expenses related to governmental activities; only \$4,396,598 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) in the amount of \$18,736,878 were 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 School District, the General Fund and the Permanent Improvement Levy Capital Projects Fund are the only major funds for fiscal year 2012.

### ***Reporting the School District as a Whole***

#### *Statement of Net 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 2011-2012 fiscal year?"

## East Muskingum Local School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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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 Medical-Dental 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.



## East Muskingum Local School District

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 2012 compared to 2011.

**Table 1 - Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Assets</b>			
Current and Other Assets	\$19,005,896	\$17,778,192	\$1,227,704
Capital Assets	25,622,206	26,609,140	(986,934)
Total Assets	<u>44,628,102</u>	<u>44,387,332</u>	<u>240,770</u>
<b>Liabilities</b>			
Long-Term Liabilities	7,134,961	7,128,881	6,080
Other Liabilities	8,457,648	9,848,787	(1,391,139)
Total Liabilities	<u>15,592,609</u>	<u>16,977,668</u>	<u>(1,385,059)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	20,161,290	20,886,639	(725,349)
Restricted	2,981,780	2,505,575	476,205
Unrestricted	5,892,423	4,017,450	1,874,973
Total Net Assets	<u>\$29,035,493</u>	<u>\$27,409,664</u>	<u>\$1,625,829</u>

Total assets increased by \$240,770 even though the largest component of assets, capital assets, decreased by \$986,934. The decrease in capital assets is due to current year depreciation exceeding capital asset additions in the current year. This decrease is offset by an increase in current and other assets in the amount of \$1,227,704. The increase in current and other assets is primarily due to an increase in property taxes receivable in the amount of \$903,714 as a result of increases in public utility assessed valuations. In the prior year, a portion of a public utility's taxable values were under appeal. During fiscal year 2012, the amount of taxable value increased due to the outcome of the appeal which resulted in increased property taxes receivable for the School District.

Total liabilities decreased \$1,385,059 even though the largest component of liabilities, long-term liabilities, increased by \$6,080. The net decrease is primarily due a decrease in deferred revenue in the amount of \$1,166,441, which is due to an increase in the amount available as an advance against collected property tax revenue. During 2012, the County Treasurer changed the collection dates for second-half property tax collections which significantly increased the amount of property taxes that were available to the School District at year-end.

Net assets increased \$1,625,829. Invested in Capital Assets, Net of Related Debt decreased \$725,349. This decrease can be attributed primarily to current year depreciation expense. The decrease was more than offset by an increase in unrestricted net assets in the amount of \$1,874,973. This increase is directly attributable to an increase in receivables, and the decrease in deferred revenue, both relating to property taxes as discussed above.

## East Muskingum Local School District

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012 and comparisons to fiscal year 2011.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$2,180,322	\$2,094,836	\$85,486
Operating Grants, Contributions and Interest	2,108,266	2,103,180	5,086
Capital Grants and Contributions	108,010	82,647	25,363
	<u>4,396,598</u>	<u>4,280,663</u>	<u>115,935</u>
General Revenues			
Property Taxes	8,895,524	6,585,040	2,310,484
Payment in Lieu of Taxes	70,353	80,563	(10,210)
Grants and Entitlements	9,566,055	10,105,974	(539,919)
Investment Earnings	60,480	78,290	(17,810)
Miscellaneous	144,466	102,917	41,549
	<u>18,736,878</u>	<u>16,952,784</u>	<u>1,784,094</u>
Total Revenues	<u>23,133,476</u>	<u>21,233,447</u>	<u>1,900,029</u>
<b>Program Expenses</b>			
Instruction			
Regular	9,297,624	9,045,674	251,950
Special	2,512,032	1,762,879	749,153
Vocational	218,705	280,942	(62,237)
Student Intervention Services	414,113	386,670	27,443
Support Services			
Pupils	458,486	454,620	3,866
Instructional Staff	891,043	1,342,358	(451,315)
Board of Education	74,248	47,281	26,967
Administration	2,024,862	1,859,835	165,027
Fiscal	448,308	409,775	38,533
Operation and Maintenance of Plant	1,880,659	1,876,740	3,919
Pupil Transportation	1,308,655	1,269,442	39,213
Central	137,119	186,191	(49,072)
Food Service Operations	1,112,534	1,074,691	37,843
Extracurricular Activities	479,056	460,503	18,553
Interest	250,203	329,150	(78,947)
Total Expenses	<u>21,507,647</u>	<u>20,786,751</u>	<u>720,896</u>
<i>Change in Net Assets</i>	1,625,829	446,696	1,179,133
Net Assets Beginning of Year	<u>27,409,664</u>	<u>26,962,968</u>	<u>446,696</u>
Net Assets End of Year	<u><u>\$29,035,493</u></u>	<u><u>\$27,409,664</u></u>	<u><u>\$1,625,829</u></u>

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.

## East Muskingum Local School District

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 38 percent of revenues for governmental activities for the School District in fiscal year 2012. While the School District operates on a very tight budget, revenue sources are projected to keep pace with expenses for the succeeding fiscal year.

During fiscal year 2012, total revenues increased \$1,900,029. The increase was due primarily to the aforementioned increases in property taxes. The amount available as an advance on the August property tax settlement increased. In addition, property tax revenues increased during fiscal year 2012 as a result of increased assessed valuation from the prior year as previously discussed.

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.

Table 3

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Instruction:				
Regular	\$9,297,624	\$7,281,230	\$9,045,674	\$7,208,736
Special	2,512,032	1,981,446	1,762,879	1,103,396
Vocational	218,705	155,779	280,942	218,016
Student Intervention Services	414,113	414,113	386,670	386,670
Support Services:				
Pupils	458,486	458,486	454,620	454,620
Instructional Staff	891,043	461,708	1,342,358	984,823
Board of Education	74,248	74,248	47,281	47,281
Administration	2,024,862	1,988,341	1,859,835	1,824,232
Fiscal	448,308	444,419	409,775	406,558
Operation and Maintenance of Plant	1,880,659	1,786,098	1,876,740	1,762,256
Pupil Transportation	1,308,655	1,278,126	1,269,442	1,255,202
Central	137,119	126,319	186,191	167,541
Food Service Operations	1,112,534	120,326	1,074,691	113,908
Extracurricular Activities	479,056	290,207	460,503	243,699
Interest	250,203	250,203	329,150	329,150
Total Expenses	<u>\$21,507,647</u>	<u>\$17,111,049</u>	<u>\$20,786,751</u>	<u>\$16,506,088</u>

As shown from the table above, the net cost of services has remained consistent at approximately 80 percent of the total cost of services. Instructional programs comprise approximately 58 percent of total governmental program expenses. Of the instructional expenses, approximately 75 percent is for regular instruction, 20 percent for special instruction, 2 percent for vocational, and 3 percent for intervention services instruction.

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with 80 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

## **East Muskingum Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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### **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 \$23,012,503, expenditures of \$20,529,122, and a combined net increase in fund balances, including other financing sources/use, in the amount of \$2,494,225. The largest change was in the General Fund, with an increase in fund balance in the amount of \$2,144,084 due to increased property tax collections.

#### *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.

For the General Fund, budget basis revenues were \$259,832 below final estimates of \$17,362,352. Of this difference, the majority was due to tax estimates being higher than final estimates which was offset by intergovernmental revenues being lower than final estimates.

The School District's ending General Fund budgetary basis balance was \$32,055 above the final estimate.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

At the end of fiscal year 2012, the School District had \$25,622,206 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 8 for more detailed information of the School District's capital assets.

#### *Debt*

At June 30, 2012, the School District had \$4,950,000 in general obligation bonds outstanding, with \$355,000 due within one year, and \$328,226 in Energy Conservation Notes, with \$30,385 due within one year.

The bonds were issued for school facilities construction and improvements. The bonds were refunded during fiscal year 2012 and 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. See Note 14 for more detail on the School District's debt including the current year refunding.

### **Economic Factors**

Based on the most recent Board-adopted five year forecast, the School District is projecting deficit spending beginning in fiscal year 2013. 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.

**East Muskingum Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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**Contacting the School District's Financial Management**

This financial report is designed to provide our citizen's, 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 Fisher, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at [lfisher@east-muskingum.k12.oh.us](mailto:lfisher@east-muskingum.k12.oh.us).

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**East Muskingum Local School District**

*Statement of Net Assets*

*June 30, 2012*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$9,174,914
Cash and Cash Equivalents in Segregated Accounts	900
Accounts Receivable	1,890
Accrued Interest Receivable	3,760
Intergovernmental Receivable	269,198
Payment in Lieu of Taxes Receivable	45,929
Inventory Held for Resale	6,833
Materials and Supplies Inventory	135,915
Prepaid Items	29,894
Property Taxes Receivable	9,256,527
Deferred Charges	80,136
Nondepreciable Capital Assets	150,965
Depreciable Capital Assets, Net	25,471,241
Total Assets	44,628,102
<b>Liabilities</b>	
Accrued Wages and Benefits Payable	1,509,306
Accounts Payable	179,884
Contracts Payable	4,056
Intergovernmental Payable	457,989
Matured Compensated Absences Payable	54,044
Matured Longevity Benefits Payable	106,928
Accrued Interest Payable	19,400
Claims Payable	146,000
Deferred Revenue	5,921,975
Vacation Benefits Payable	58,066
Long-Term Liabilities:	
Due Within One Year	584,694
Due In More Than One Year	6,550,267
Total Liabilities	15,592,609
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	20,161,290
Restricted for:	
Capital Projects	1,663,138
Debt Service	541,776
Unclaimed Monies	2,258
State Programs	428
Federal Programs	206,457
Food Service	297,431
Classroom Facilities Maintenance	182,371
Other Purposes	87,921
Unrestricted	5,892,423
Total Net Assets	\$29,035,493

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net Expense and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$9,297,624	\$1,469,130	\$489,560	\$57,704	(\$7,281,230)
Special	2,512,032	0	530,586	0	(1,981,446)
Vocational	218,705	0	62,926	0	(155,779)
Student Intervention Services	414,113	0	0	0	(414,113)
Support Services:					
Pupils	458,486	0	0	0	(458,486)
Instructional Staff	891,043	0	429,335	0	(461,708)
Board of Education	74,248	0	0	0	(74,248)
Administration	2,024,862	0	36,521	0	(1,988,341)
Fiscal	448,308	0	986	2,903	(444,419)
Operation and Maintenance of Plant	1,880,659	11,213	66,474	16,874	(1,786,098)
Pupil Transportation	1,308,655	0	0	30,529	(1,278,126)
Central	137,119	0	10,800	0	(126,319)
Operation of Non-Instructional Services:					
Food Service Operations	1,112,534	511,130	481,078	0	(120,326)
Extracurricular Activities	479,056	188,849	0	0	(290,207)
Interest	250,203	0	0	0	(250,203)
Total Governmental Activities	<u>\$21,507,647</u>	<u>\$2,180,322</u>	<u>\$2,108,266</u>	<u>\$108,010</u>	<u>(17,111,049)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	7,309,781
Capital Outlay	753,231
Debt Service	700,042
Capital Maintenance	132,470
Payment in Lieu of Taxes	70,353
Grants and Entitlements not Restricted to Specific Programs	9,566,055
Investment Earnings	60,480
Miscellaneous	144,466
Total General Revenues	<u>18,736,878</u>

Change in Net Assets	1,625,829
Net Assets Beginning of Year	<u>27,409,664</u>
Net Assets End of Year	<u>\$29,035,493</u>

See accompanying notes to the basic financial statements



**East Muskingum Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2012*

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,995,598	\$1,151,042	\$1,177,817	\$7,324,457
Cash and Cash Equivalents in Segregated Accounts	0	0	900	900
Accounts Receivable	1,890	0	0	1,890
Intergovernmental Receivable	17	0	269,181	269,198
Accrued Interest Receivable	3,760	0	0	3,760
Inventory Held for Resale	0	0	6,833	6,833
Materials and Supplies Inventory	133,016	0	2,899	135,915
Prepaid Items	28,718	651	525	29,894
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	2,258	0	0	2,258
Property Taxes Receivable	7,640,984	799,819	815,724	9,256,527
Payment in Lieu of Taxes Receivable	38,105	4,646	3,178	45,929
<b>Total Assets</b>	<b>\$12,844,346</b>	<b>\$1,956,158</b>	<b>\$2,277,057</b>	<b>\$17,077,561</b>
<b>Liabilities</b>				
Matured Compensated Absences Payable	\$52,021	\$0	\$2,023	\$54,044
Matured Longevity Benefits Payable	100,796	0	6,132	106,928
Accounts Payable	91,864	75,036	12,984	179,884
Accrued Wages and Benefits Payable	1,397,751	0	111,555	1,509,306
Contracts Payable	0	4,056	0	4,056
Intergovernmental Payable	423,697	0	34,292	457,989
Deferred Revenue	5,451,861	575,535	770,052	6,797,448
<b>Total Liabilities</b>	<b>7,517,990</b>	<b>654,627</b>	<b>937,038</b>	<b>9,109,655</b>
<b>Fund Balances</b>				
Nonspendable:				
Inventories	133,016	0	9,732	142,748
Prepaid Items	28,718	651	525	29,894
Unclaimed Monies	2,258	0	0	2,258
Restricted for:				
Food Service Operations	0	0	297,670	297,670
State Grant Expenditures	0	0	428	428
Federal Grant Expenditures	0	0	14,269	14,269
Classroom Facilities Maintenance	0	0	171,880	171,880
Capital Projects	0	1,300,880	0	1,300,880
Debt Service	0	0	507,619	507,619
Other Purposes	0	0	87,896	87,896
Committed to:				
Encumbrances	4,680	0	0	4,680
Assigned to:				
Encumbrances	111,763	0	0	111,763
Fiscal Year 2013 Appropriations	23,540	0	0	23,540
Capital Projects	0	0	250,000	250,000
Other Purposes	65,543	0	0	65,543
Unassigned	4,956,838	0	0	4,956,838
<b>Total Fund Balances</b>	<b>5,326,356</b>	<b>1,301,531</b>	<b>1,340,019</b>	<b>7,967,906</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$12,844,346</b>	<b>\$1,956,158</b>	<b>\$2,277,057</b>	<b>\$17,077,561</b>

**East Muskingum Local School District**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2012*

<b>Total Governmental Fund Balances</b>		<b>\$7,967,906</b>
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.		25,622,206
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Grants	192,188	
Property Taxes	679,525	
Interest	3,760	
Total	875,473	875,473
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 on the statement of net assets.		1,702,199
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		80,136
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.		(19,400)
Long-term liabilities and vacation benefits payable are not due and payable in the current period and , therefore, are not reported in the funds:		
General Obligation Serial/Term Bonds	(4,950,000)	
Bond Premium	(163,368)	
Energy Conservation Loan	(328,226)	
Vacation Benefits Payable	(58,066)	
Compensated Absences	(587,841)	
Longevity Benefits Payable	(1,060,074)	
Capital Leases	(45,452)	
Total	(7,193,027)	(7,193,027)
Net Assets of Governmental Activities		<b>\$29,035,493</b>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2012*

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$7,291,352	\$751,791	\$824,491	\$8,867,634
Payment in Lieu of Taxes	58,739	7,207	4,407	70,353
Intergovernmental	9,669,610	89,510	1,893,446	11,652,566
Interest	62,942	0	970	63,912
Tuition and Fees	1,469,130	0	0	1,469,130
Extracurricular Activities	0	0	188,849	188,849
Rent	11,213	0	0	11,213
Charges for Services	0	0	511,130	511,130
Contributions and Donations	33,250	0	0	33,250
Miscellaneous	139,997	83	4,386	144,466
<b>Total Revenues</b>	<u>18,736,233</u>	<u>848,591</u>	<u>3,427,679</u>	<u>23,012,503</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,915,362	210,916	419,812	8,546,090
Special	1,895,271	0	453,516	2,348,787
Vocational	181,578	0	0	181,578
Student Intervention Services	409,912	0	4,201	414,113
Support Services:				
Pupils	411,335	0	0	411,335
Instructional Staff	427,095	0	410,633	837,728
Board of Education	66,704	0	0	66,704
Administration	1,741,342	0	34,925	1,776,267
Fiscal	410,247	15,619	15,632	441,498
Operation and Maintenance of Plant	1,489,134	90,781	215,507	1,795,422
Pupil Transportation	1,198,405	164,244	0	1,362,649
Central	126,762	0	11,686	138,448
Operation of Non-Instructional Services:				
Food Service Operations	0	0	963,659	963,659
Extracurricular Activities	303,286	0	168,588	471,874
Capital Outlay	0	193,001	0	193,001
Debt Service:				
Principal Retirement	14,746	0	334,077	348,823
Issuance Costs	0	0	86,809	86,809
Interest and Fiscal Charges	6,170	0	138,167	144,337
<b>Total Expenditures</b>	<u>16,597,349</u>	<u>674,561</u>	<u>3,257,212</u>	<u>20,529,122</u>
<b>Excess of Revenues Over Expenditures</b>	<u>2,138,884</u>	<u>174,030</u>	<u>170,467</u>	<u>2,483,381</u>
<b>Other Financing Sources (Use)</b>				
Refunding Bonds Issued	0	0	4,950,000	4,950,000
Premium on Refunding Bonds Issued	0	0	176,988	176,988
Proceeds from Sale of Capital Assets	5,200	0	0	5,200
Payment to Refunded Bond Escrow Agent	0	0	(5,121,344)	(5,121,344)
<b>Total Other Financing Sources (Use)</b>	<u>5,200</u>	<u>0</u>	<u>5,644</u>	<u>10,844</u>
<b>Net Change in Fund Balances</b>	2,144,084	174,030	176,111	2,494,225
<b>Fund Balances Beginning of Year</b>	<u>3,182,272</u>	<u>1,127,501</u>	<u>1,163,908</u>	<u>5,473,681</u>
<b>Fund Balances End of Year</b>	<u>\$5,326,356</u>	<u>\$1,301,531</u>	<u>\$1,340,019</u>	<u>\$7,967,906</u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds		\$2,494,225
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 and capital contributions in the current period:		
Capital Asset Additions - Capital Outlay	449,371	
Capital Asset Additions - Capital Contributions	18,500	
Current Year Depreciation	(1,443,847)	
Total		(975,976)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the proceeds and loss on disposal of capital assets.		
Loss on Disposal of Capital Assets	(16,158)	
Proceeds from Sale of Capital Assets	5,200	
Total		(10,958)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	27,890	
Accrued Interest Receivable	(2,462)	
Intergovernmental	77,045	
Total		102,473
Long-term debt proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities:		
Proceeds of Refunding Bonds	(4,950,000)	
Bond Premium	(176,988)	
Total		(5,126,988)
Repayment of principal and refundings are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.		
General Obligation Bonds	305,000	
Payment to Refunded Bond Escrow Agent	5,121,344	
Energy Conservation Notes	29,077	
Capital Leases	14,746	
Total		5,470,167
Issuance costs are reported as an expenditure when paid in the governmental funds, but are deferred on the statement of net assets.		
		86,809
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 the governmental funds:		
Accrued Interest	8,531	
Deferred Amount on Refunding	(121,344)	
Amortization of Bond Premium	13,620	
Amortization of Bond Issuance Costs	(6,673)	
Total		(105,866)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	(480)	
Compensated Absences	(78,473)	
Longevity Benefits Payable	(163,062)	
Total		(242,015)
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 in net assets of the internal service fund is reported with governmental activities.		
		(66,042)
Change in Net Assets of Governmental Activities		\$1,625,829

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$5,229,905	\$5,229,905	\$5,652,419	\$422,514
Payment in Lieu of Taxes	65,000	65,000	58,739	(6,261)
Intergovernmental	10,240,061	10,438,061	9,683,222	(754,839)
Interest	80,000	80,000	56,239	(23,761)
Tuition and Fees	1,375,600	1,375,600	1,469,130	93,530
Rentals	11,017	11,017	11,213	196
Contributions and Donations	33,250	33,250	33,250	0
Miscellaneous	120,087	129,519	138,308	8,789
Total Revenues	17,154,920	17,362,352	17,102,520	(259,832)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,191,266	8,195,317	7,955,973	239,344
Special	1,281,754	1,281,754	1,981,164	(699,410)
Vocational	249,339	249,339	252,952	(3,613)
Student Intervention Services	341,690	341,690	409,912	(68,222)
Support Services:				
Pupils	432,655	391,862	412,851	(20,989)
Instructional Staff	1,117,059	1,117,059	386,486	730,573
Board of Education	38,625	38,625	69,909	(31,284)
Administration	1,819,840	1,814,040	1,739,858	74,182
Fiscal	391,887	391,887	417,206	(25,319)
Operation and Maintenance of Plant	1,537,851	1,543,650	1,502,280	41,370
Pupil Transportation	1,282,085	1,282,085	1,234,522	47,563
Central	127,882	127,882	136,261	(8,379)
Extracurricular Activities	322,071	322,071	311,200	10,871
Debt Service:				
Principal Retirement	14,746	14,746	14,746	0
Interest and Fiscal Charges	6,170	6,170	6,170	0
Total Expenditures	17,154,920	17,118,177	16,831,490	286,687
Excess of Revenues Over Expenditures	0	244,175	271,030	26,855
<b>Other Financing Source</b>				
Proceeds from Sale of Capital Assets	0	0	5,200	5,200
Net Change in Fund Balance	0	244,175	276,230	32,055
Fund Balance Beginning of Year	4,073,400	4,073,400	4,073,400	0
Prior Year Encumbrances Appropriated	409,566	409,566	409,566	0
Fund Balance End of Year	\$4,482,966	\$4,727,141	\$4,759,196	\$32,055

See accompanying notes to the basic financial statements

**East Muskingum Local School District**

*Statement of Fund Net Assets*

*Self-Insurance Internal Service Fund*

*June 30, 2012*

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	<u>Medical-Dental Insurance</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,848,199</u>
<b>Current Liabilities</b>	
Claims Payable	<u>146,000</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$1,702,199</u></u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2012*

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	Medical-Dental Insurance
<b>Operating Revenues</b>	
Charges for Services	\$2,376,169
<b>Operating Expenses</b>	
Purchased Services	449,867
Claims	1,992,344
Total Operating Expenses	2,442,211
Change in Net Assets	(66,042)
Net Assets Beginning of Year	1,768,241
Net Assets End of Year	\$1,702,199

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Cash Flows*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2012*

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	Medical-Dental Insurance
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Interfund Services Provided	\$2,376,169
Cash Payments to Suppliers for Services	(449,867)
Cash Payments for Claims	(2,080,344)
<i>Net Cash Used for Operating Activities</i>	(154,042)
<i>Cash and Cash Equivalents Beginning of Year</i>	2,002,241
<i>Cash and Cash Equivalents End of Year</i>	\$1,848,199
 <b>Reconciliation of Operating Loss to</b>	
<b>Net Cash Used for Operating Activities:</b>	
Operating Loss	(\$66,042)
 <b>Adjustments to Reconcile</b>	
<b>Changes in Liabilities:</b>	
Decrease in Claims Payable	(88,000)
<i>Net Cash Used for Operating Activities</i>	(\$154,042)

See accompanying notes to the basic financial statements



**East Muskingum Local School District, Ohio**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2012*

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**Assets**

Equity in Pooled Cash and Cash Equivalents \$47,803

**Liabilities**

Due to Students \$47,803

See accompanying notes to the basic financial statements

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**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**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 98 classified employees and 165 certificated full-time teaching personnel who provide services to 2,178 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 participates in five organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association (LACA), Mid-East Career and Technology Centers, the Metropolitan Educational Council (MEC), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 15 and 16 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.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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**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. 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 Levy Capital Projects Fund are the only major funds 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.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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***Permanent Improvement Levy Fund*** The Permanent Improvement Levy 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, prescription drug, and dental claims.

***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District 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 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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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, payments in lieu of taxes, grants, entitlements, and donations. On the accrual basis, payments from property taxes (see Note 6) and revenue in lieu of taxes (see Note 7) are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, fees, and rentals.

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

Property taxes and payments in lieu of taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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. The athletic account monies are kept separate from the School District treasury. This account is presented on the financial statements as "cash and cash equivalents in segregated accounts".

During fiscal year 2012, investments were limited to money market mutual funds, non-negotiable and negotiable certificates of deposits. The money mutual market funds are reported at fair value based on quoted market prices. Non-negotiable certificates of deposit are reported at cost. Investments in negotiable certificates of deposits 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 2012 amounted to \$62,942, which includes \$26,399 assigned from other School District funds.

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

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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. Inventory consists 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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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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.

***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 twenty-five 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.



**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***L. Internal Activity***

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

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

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

***M. Fund Balance***

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

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

***Restricted:*** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

***Assigned:*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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***Unassigned:*** The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

***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 required to be used for local resources restricted to expenditures for specified purposes. Of the total restricted net assets, none has resulted from enabling legislation.

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**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**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 Principle**

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53". GASB Statement No. 64 was issued to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this statement did not result in any change to the School District's financial statements.

**Note 4 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (non-GAAP Basis) and Actual 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).

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Adjustments to record unreported cash and to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budget basis.
4. Prepaid items are reported on the balance sheet (GAAP basis) but no on the budget basis.
5. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

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	\$2,144,084
Net Adjustment for Revenue Accruals	(1,627,010)
Net Adjustment for Expenditure Accruals	(27,886)
Beginning of Fiscal Year:	
Unrecorded Cash	4,503
Fair Value Adjustment for Investments	46,003
Prepaid Items	3,914
End of Fiscal Year:	
Unrecorded Cash	(6,500)
Fair Value Adjustment for Investments	(50,709)
Prepaid Items	(28,718)
Adjustment for Encumbrances	(181,451)
Budget Basis	<u><u>\$276,230</u></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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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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;
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 division (1) or (2) above;
7. The State Treasurer's investment pool (STAR Ohio); 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, \$6,723,877 of the School District's bank balance of \$7,369,428 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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Investments

As of June 30, 2012, the School District had investments in negotiable certificates of deposit:

	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Negotiable Certificates of Deposit	\$1,915,713	5/15/2014-6/1/2017	100.00%	N/A	N/A

**Interest Rate Risk.** The School District’s investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments 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 credit ratings for the School District’s securities are listed above. Ohio law requires that the money market mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer. The percentage of total investments is listed in the table above.

**Note 6 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District’s 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2012, are available to finance fiscal year 2012 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 and public utility property taxes which were measurable as of June 30, 2012 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 and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance, and recognized as revenue at June 30, 2012, was \$2,230,988 in the General Fund, \$39,927 in the Classroom Facilities Special Revenue Fund, \$201,111 in the Bond Retirement Fund, and \$228,930 in the Permanent Improvement Levy Capital Projects Fund. The amount available as an advance at June 30, 2011, was \$592,055 in the General Fund, \$10,752 in the Classroom Facilities Special Revenue Fund, \$48,762 in the Bond Retirement Fund, and \$59,918 in the Permanent Improvement Levy Capital Projects Fund. The amount available as an advance increased in fiscal year 2012 due to the timing of the due dates for the Muskingum County second half tax bills.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$225,233,100	85.82%	\$234,418,210	86.33%
Public Utility Personal	37,202,680	14.18%	37,105,970	13.67%
Total	<u>\$262,435,780</u>	<u>100.00%</u>	<u>\$271,524,180</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.68		\$38.16	

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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**Note 7 - Receivables**

Receivables at June 30, 2012, consisted of property taxes, intergovernmental grants, accounts, accrued interest, 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. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$679,525 may not be collected in one year. All other receivables are expected to be received within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<b><u>Governmental Activities</u></b>	
Food Service Reimbursement	\$42,230
Title I	176,326
Race to the Top	24,237
Race to the Top - Ohio Appalachian Collaborative	16,696
Workers Compensation Refund	17
Title VI-B IDEA	9,692
Total	<u><u>\$269,198</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 Almana 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 payments 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 payments in lieu of taxes to Muskingum County which is distributed to the School District. These payments are being use to finance improvements and were for a ten year period from the inception of the agreements.



**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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**Note 8 - Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	Balance <u>June 30, 2011</u>	Additions	Deletions	Balance <u>June 30, 2012</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$144,115	\$0	\$0	\$144,115
Land Improvements	6,850	0	0	6,850
Total Non-Depreciable Capital Assets	<u>150,965</u>	<u>0</u>	<u>0</u>	<u>150,965</u>
<b>Depreciable Capital Assets</b>				
Buildings and Improvements	41,387,646	197,057	0	41,584,703
Furniture, Fixtures, and Equipment	1,489,247	96,070	(28,256)	1,557,061
Vehicles	2,145,376	174,744	(135,208)	2,184,912
Total Depreciable Capital Assets	<u>45,022,269</u>	<u>467,871</u>	<u>(163,464)</u>	<u>45,326,676</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	(16,278,709)	(1,264,658)	0	(17,543,367)
Furniture, Fixtures, and Equipment	(1,014,302)	(80,264)	21,965	(1,072,601)
Vehicles	(1,271,083)	(98,925)	130,541	(1,239,467)
Total Accumulated Depreciation	<u>(18,564,094)</u>	<u>(1,443,847) *</u>	<u>152,506</u>	<u>(19,855,435)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>26,458,175</u>	<u>(975,976)</u>	<u>(10,958)</u>	<u>25,471,241</u>
Governmental Activities Capital Assets, Net	<u>\$26,609,140</u>	<u>(\$975,976)</u>	<u>(\$10,958)</u>	<u>\$25,622,206</u>

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

Instruction:	
Regular	\$675,250
Special	146,288
Vocational	14,319
Support Services:	
Pupils	41,918
Instructional Staff	49,179
Board of Education	7,544
Administration	142,863
Fiscal	4,032
Operation and Maintenance of Plant	88,761
Pupil Transportation	99,380
Central	1,509
Extracurricular	7,182
Food Service Operations	165,622
Total Depreciation Expense	<u>\$1,443,847</u>

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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**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 2012, the School District purchased its property, fleet, and liability insurance from Argonaut Insurance Company.

The types and amounts of coverage provided by the Argonaut Insurance Group are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$55,881,151
Automobile Liability (\$250 Comprehensive/\$500 Collision deductible)	1,000,000
Auto Medical Payments	5,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
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 2012, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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 Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

***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 Board pays 80 percent of the premiums for family coverage and 90 percent for single coverage. The premiums are \$1,286 for family coverage and \$491 for single coverage. The premium is paid from the fund that pays the salary of the covered employee. The claims liability of \$146,000

**East Muskingum Local School District**  
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reported in the internal service fund at June 30, 2012, 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 \$3,014,251. In addition, the School District has contracted for an excess stop-loss coverage, with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2011 and 2012 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2011	\$243,000	\$2,072,862	\$2,081,862	\$234,000
2012	234,000	1,992,344	2,080,344	146,000

**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 a minimum of 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, with the exception of the Treasurer, who is allowed to carry forward hours. 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 The Lincoln National 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. 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

**East Muskingum Local School District**  
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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 March 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, disability, and survivor 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 visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$279,561, \$245,452, and \$298,940, respectively. For fiscal year 2012, 80.90 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

***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 system. 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](http://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 multiplied by 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. 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

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

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monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,077,250, \$1,032,922, and \$1,077,494, respectively. For fiscal year 2012, 84.81 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$15,596 made by the School District and \$11,140 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, 2012, there are four employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 12 - Postemployment Benefits**

***A. School Employees Retirement System***

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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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 105(e). For fiscal year 2012, 0.55 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 fiscal year 2012, 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, 2012, 2011, and 2010, were \$41,911, \$66,356, and \$44,102, respectively. For fiscal year 2012, 14.13 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$16,246, \$16,065, and \$17,833, respectively. For fiscal year 2012, 80.59 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

***B. State Teachers Retirement System***

Plan Description - The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$84,065, \$80,631, and \$73,966, respectively. For fiscal year 2012, 83.60 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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**Note 13 - Capitalized Leases**

In prior years, the School District has entered into capitalized leases for copying equipment.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$79,285, which is equal to the present value of the minimum lease payments. A corresponding liability was recorded in the government-wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$67,424. Principal payments in fiscal year 2012 totaled \$14,746, in the governmental funds.

Future minimum lease payments through fiscal year 2016 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$16,529	\$4,386
2014	18,528	2,388
2015	9,765	455
2016	630	13
Totals	<u>\$45,452</u>	<u>\$7,242</u>

**Note 14 - Long-Term Obligations**

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

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*Notes to the Basic Financial Statements*  
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	Outstanding 06/30/11	Additions	Reductions	Outstanding 06/30/12	Due Within One Year
<b>Governmental Activities:</b>					
2001 School Facilities Current					
Interest Serial Bonds - 4.85%	\$2,455,000	\$0	\$2,455,000	\$0	\$0
2001 School Facilities Current					
Interest Term Bonds - 5%	2,850,000	0	2,850,000	0	0
2012 School Facilities Refunding					
Serial Bonds - various	0	4,950,000	0	4,950,000	355,000
Bond Premium	0	176,988	13,620	163,368	0
Total General Obligation Bonds	<u>5,305,000</u>	<u>5,126,988</u>	<u>5,318,620</u>	<u>5,113,368</u>	<u>355,000</u>
2007 House Bill 264 Energy					
Conservation Notes - 4.5%	357,303	0	29,077	328,226	30,385
Total Long-Term Debt	<u>5,662,303</u>	<u>5,126,988</u>	<u>5,347,697</u>	<u>5,441,594</u>	<u>385,385</u>
Capital Leases	60,198	0	14,746	45,452	16,529
Compensated Absences Payable	509,368	137,131	58,658	587,841	63,002
Longevity Benefits Payable	<u>897,012</u>	<u>280,702</u>	<u>117,640</u>	<u>1,060,074</u>	<u>119,778</u>
Total Long-Term Obligations	<u><u>\$7,128,881</u></u>	<u><u>\$5,544,821</u></u>	<u><u>\$5,538,741</u></u>	<u><u>\$7,134,961</u></u>	<u><u>\$584,694</u></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 were 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. These bonds were retired by a current refunding during fiscal year 2012.

On September 9, 2011, the School District issued \$4,950,000 of School Facilities General Obligation Refunding serial bonds with varying interest rates between 2 percent to 4 percent. The general obligation refunding bonds were sold at a premium of \$176,988 that will be amortized over the term of the bonds. The amount amortized for fiscal year 2012 was \$13,620 leaving an unamortized balance of \$163,368. Issuance costs associated with the refunding bond issue, in the amount of \$86,809, are deferred and will be amortized over the term of the bonds. The amount amortized during fiscal year 2012 was \$6,673 leaving an unamortized balance of \$80,136. The refunding resulted in a current refunding of the 2001 School Facilities serial and term bonds. \$5,121,344 (after premium, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2001 bonds. On December 1, 2011, the 2001 refunded bonds were called and paid in full and the escrow account was closed. As a result of the refunding, \$5,305,000 of refunded bonds is considered defeased and the liability is removed from the statement of net assets. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition in the amount of \$121,344.



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This difference was expensed during fiscal year 2012. The School District completed the current refunding to reduce its total debt service requirements over the next 12 years by \$582,478 in order to obtain an economic gain of \$487,382.

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year	Principal	Interest	Total
2013	\$355,000	\$153,888	\$508,888
2014	365,000	146,688	511,688
2015	370,000	139,338	509,338
2016	380,000	131,188	511,188
2017	385,000	122,888	507,888
2018-2022	2,125,000	398,519	2,523,519
2023	970,000	39,200	1,009,200
Total	<u>\$4,950,000</u>	<u>\$1,131,709</u>	<u>\$6,081,709</u>

The bonds maturing on or after December 1, 2021, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after June 1, 2021, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The School District obtained approval to participate in the Ohio School District Credit Enhancement Program on November 9, 2010. The additional level of security afforded by the Credit Enhancement Program provides the basis for consideration of a higher debt rating by certain rating agencies. As a result, the School District obtained a Moody's rating on the 2011 School Facilities Refunding Bonds of Aa2.

*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.

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2012, are as follows:

Year	Principal	Interest	Total
2013	\$30,385	\$14,770	\$45,155
2014	31,753	13,403	45,156
2015	33,181	11,974	45,155
2016	34,675	10,480	45,155
2017	36,235	8,920	45,155
2018-2021	161,997	18,626	180,623
Total	<u>\$328,226</u>	<u>\$78,173</u>	<u>\$406,399</u>

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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The School District's overall legal debt margin was \$19,596,064, with an unvoted debt margin of \$271,246 at June 30, 2012.

**Note 15 - Jointly Governed Organizations**

***A. Licking Area Computer Association (LACA)***

The School District is a participant in LACA, which is a computer consortium. LACA is an association which serves fourteen counties within the boundaries of Licking, Knox, and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and the School District has no equity interest in the Association. The LACA constitution states that any school district withdrawing from the Association prior to the dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for computer and internet services during fiscal year 2012 were \$86,296. Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, Ohio 43055.

***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 2012, 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 over 195 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 42 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 44 members, either the superintendent, a designated representative, or a member of the board of education for each participating school district in Franklin County and one representative 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 2012, the School District made a payment of \$801 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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***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 \$325 for fiscal year 2012. To obtain financial information write to the Coalition of Rural and Appalachian Schools, Mike Shoemaker, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

***E. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)***

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides educational management information and cooperative purchasing services to member districts. The School District participates in the sales service programs to purchase food, office, and classroom supplies. These programs allow schools to purchase supplies at reduced rates. During fiscal year 2012, the total amount paid to OME-RESA from the School District was \$610 for these services. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

**Note 16 - Insurance Purchasing Pools**

***A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan***

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all participants. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

***B. 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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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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 paid an initial \$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 17 - Contingencies**

***A. Grants***

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

***B. Litigation***

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

**Note 18 - 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 an equal amount to 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. In prior years, the School District was also required to set aside money for budget stabilization and textbooks.

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

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	<u>Capital Acquisition</u>
Set-aside Reserve Balance June 30, 2011	\$0
Current Year Set-aside Requirement	367,178
Current Year Offsets	(1,237,360)
Current Year Qualifying Disbursements	<u>(141,105)</u>
Total	<u><u>(\$1,011,287)</u></u>
Balance Carried Forward to Fiscal Year 2013	<u><u>\$0</u></u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts to or below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	Grant Year	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2011/2012	10.555	\$ 62,452	\$ 62,452
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	70,178	70,178
National School Lunch Program	2011/2012	10.555	297,883	297,883
Cash Assistance Subtotal			<u>368,061</u>	<u>368,061</u>
Total Child Nutrition Cluster			<u>430,513</u>	<u>430,513</u>
Total U.S. Department of Agriculture			430,513	430,513
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1 Cluster:				
Title 1 Grants to Local Educational Agencies	2011 2012	84.010	19,917 <u>297,888</u>	36,309 <u>273,768</u>
Total Title 1 Grants to Local Educational Agencies			317,805	310,077
ARRA - Title 1 Grants to Local Educational Agencies	2011	84.389	<u>15,856</u>	<u>15,856</u>
Total Title 1 Cluster			333,661	325,933
Special Education Cluster:				
Special Education - Grants to States	2011 2012	84.027	20,913 <u>356,927</u>	28,507 <u>338,861</u>
Total Special Education - Grants to States			377,840	367,368
Special Education - Preschool Grants	2012	84.173	7,697	7,697
ARRA - Special Education - Grants to States	2011	84.391	<u>          </u>	<u>7,070</u>
Total Special Education Cluster			385,537	382,135
Educational Technology State Grants	2012	84.318	2,643	2,643
Improving Teacher Quality State Grants	2011 2012	84.367	13,801 <u>120,102</u>	18,782 <u>120,102</u>
Total Improving Teacher Quality State Grants			133,903	138,884
ARRA - State Fiscal Stabilization Fund	2011	84.394	<u>          </u>	93,620
ARRA - Race to the Top Incentive Grants				
Race to the Top	2011	84.395	(3,255)	
Race to the Top	2012	84.395	46,255	36,310
Ohio Appalachian Collaborative (OAC)	2011	84.395	(7,864)	
Ohio Appalachian Collaborative (OAC)	2012	84.395	168,307	162,226
Ohio Resident Educator Program	2012	84.395	1,050	1,050
Total ARRA - Race to the Top Incentive Grants			<u>204,493</u>	<u>199,586</u>
Education Jobs	2012	84.410	<u>256,073</u>	<u>256,074</u>
Total U.S. Department of Education			<u>1,316,310</u>	<u>1,398,875</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 1,746,823</u></b>	<b><u>\$ 1,829,388</u></b>

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at fair value. The School District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities.

**NOTE D – TRANSFERS BETWEEN PROGRAM YEARS**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
ARRA-Race to the Top-ODE	84.395	\$3,255
ARRA-Race to the Top-OAC	84.395	\$7,864





# Dave Yost • 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 Road  
New Concord, Ohio 43762

To the Board of Education:

We have audited the financial statements of the governmental activities, 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, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 4, 2013. 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 for the purpose of opining 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the 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 intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

February 4, 2013



# Dave Yost • 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 Road  
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 could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2012. 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 major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

As described in Finding 2012-001 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding Cash Management applicable to its ARRA-Race to the Top major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### 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, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2012-001 to be a material weakness.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



**Dave Yost**  
Auditor of State

February 4, 2013

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified for all major programs, except for the Cash Management requirement applicable to the ARRA-Race to the Top program, which we qualified.
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under §.510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Child Nutrition Cluster, CFDA # 10.553, 10.555  ARRA – Race to the Top, CFDA #84.395
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2012-001
<b>CFDA Title and Number</b>	ARRA-Race to the Top, CFDA #84.395
<b>Federal Award Number / Year</b>	2011/2012
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance and Material Weakness – Cash Management**

34 C.F.R. 80.21(c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. 34 C.F.R. 80.20(b) states the financial management systems of other grantees and subgrantees must meet the following standards: (7) Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used..... When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 C.F.R. 80.21). To receive approval consideration, cash requests must be made *for immediate needs for the month requested*. Ohio Department of Education Project Cash Request Instructions state the Ohio Department of Education (ODE) will initiate the first payment of project funds to school districts and agencies upon project approval. Subsequent payments must be requested as needed and for immediate cash needs. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the “Cash Management Act” 31 C.F.R. part 205, the time lapse between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds MUST be expended within the period of time for which cash is requested.

During fiscal year 2012 within the Race to the Top Fund, we determined 100% of the drawdowns tested were not spent by the end of the month for which the funds were requested. The amount of these drawdowns not spent by the end of the month for which the funds were requested ranged from \$70 to \$9,945. Both programs in the ARRA-Race to the Top grant had unspent monies as of June 30, 2012.

We recommend the School District monitor the cash balances in this Race to the Top Fund to determine when these expenditures should be made and/or how much cash to request. This will help ensure that the monies drawn down are expended within the required time frame. These funds should be expended by the end of the month in which funds were requested. Also, Ohio Department of Education CCIP Note #253 made changes to the initial cash request in July for Ed Jobs and ARRA-Race to the Top programs. The School District will not lose access to the funds in July and still have full access to their entire allocations.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2012-001 (Continued)**

**Officials' Response and Corrective Action Plan:** We will monitor the cash request process for the Race to the Top grant programs more closely in the future.

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# Dave Yost • 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  
FEBRUARY 14, 2013**