



**Auditor of State
Betty Montgomery**

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Local School District
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762-9702

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 East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 3, during the year ended June 30, 2003 the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

April 1, 2004

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

The discussion and analysis of the East Muskingum Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

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

- In total, net assets of governmental activities increased \$499,237.
- General revenues accounted for \$13,773,930 in revenue or 82.4 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,956,025 or 17.6 percent of total revenues of \$16,729,955.
- Total assets of governmental activities increased by \$2,014,143. The majority of this increase is shown from capital assets increasing by \$14,904,684 as a result of construction in progress relating to the Classroom Facilities Program. Cash and cash equivalents, intergovernmental receivables, and accrued interest receivable have decreased. However, asset increases were offset by increases in liabilities of retainage payable and deferred revenue.
- The School District had \$16,230,718 in expenses related to governmental activities; only \$2,956,025 of these expenses were offset by program specific charges for services, grants or contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$13,773,930 were not adequate to provide for these programs.
- The School District has three major funds; the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$13,456,767 in revenues and \$13,027,041 in expenditures. The General Fund's balance increased \$486,306. The Permanent Improvement Capital Projects Fund had \$582,657 in revenues and \$49,070 in expenditures and the fund balance increased \$533,587. The Classroom Facilities Capital Projects Fund had \$9,373,394 in revenues and \$15,775,504 in expenditures and fund balance decreased \$6,402,110.

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 East Muskingum Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

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 East Muskingum Local School District, the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund are the major funds.

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 2002-2003 fiscal year?" 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. The School District's major governmental funds are the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund.

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

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.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$24,800,653	\$37,691,194
Capital Assets	21,093,062	6,188,378
Total Assets	45,893,715	43,879,572
Liabilities		
Long-Term Liabilities	(8,291,613)	(8,375,783)
Other Liabilities	(6,806,721)	(5,207,645)
Total Liabilities	(15,098,334)	(13,583,428)
Net Assets		
Invested in Capital		
Assets Net of Debt	19,677,141	5,816,228
Restricted	9,506,134	23,186,897
Unrestricted	1,612,106	1,293,019
Total Net Assets	\$30,795,381	\$30,296,144

Total assets increased \$2,014,143. Capital assets increased by \$14,904,684. Taxes receivable increased \$271,857 which is partially offset by an increase in deferred revenue. The remaining increase in taxes receivable resulted from increased tax estimates at June 30, 2003. These increases were offset by decreases in cash and cash equivalents and intergovernmental receivables in the amounts of \$4,870,495 and \$9,133,304, respectively.

Long-term liabilities decreased \$84,170 which is largely attributed to the decrease in bonds payable in the amount of \$230,000. In addition, the School District entered into a capital lease agreement with a liability of \$43,880.

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

Other liabilities also increased by \$1,599,076 or 30.7 percent. \$82,077 of this increase can be attributed to an increase in accrued wages and benefits payable and \$1,000,303 can be attributed to an increase in contracts payable. Claims payable associated with the Medical-Dental Insurance Internal Service Fund decreased from fiscal year 2002 in the amount of \$65,568. The remaining increase can be attributed to compensated absences and the recognition of deferred revenue in relation to taxes receivable as mentioned earlier.

Net assets increased \$499,237. Most of this increase can be attributed to the unrestricted net assets increasing by \$319,087 or 24.6 percent primarily due to a decrease in claims payable of the internal service fund.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

	Governmental Activities 2003
Revenues	
Program Revenues:	
Charges for Services	\$912,106
Operating Grants, Contributions, and Interest	1,723,597
Capital Grants, Contributions, and Interest	320,322
Total Program Revenues	2,956,025
General Revenues:	
Property Taxes	4,973,041
Grants and Entitlements	8,273,410
Other General Revenues	527,479
Total General Revenues	13,773,930
Total Revenues	16,729,955
Program Expenses	
Instruction	8,782,781
Support Services:	
Pupils and Instructional Staff	1,033,945
Board of Education, Administration and Fiscal	1,972,321
Operation and Maintenance of Plant	1,711,160
Pupil Transportation	1,043,374
Central	66,221
Operation of Non-Instructional Services	757,142
Extracurricular Activities	508,546
Interest	355,228
Total Expenses	16,230,718
Change in Net Assets	\$499,237

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

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

of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 30 percent of revenues for governmental activities for East Muskingum Local School District in fiscal year 2003.

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental effect on the School District. While the School District operates on a very tight budget, revenue sources are not projected to keep pace with expenditures. Enrollment is also a factor in the finances of the School District. The School District lost approximately \$228,000 in outgoing open enrollment in fiscal year 2003 and currently does not accept open enrollment students.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions 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. Comparisons between fiscal year 2002 and 2003 are not possible due to the unavailability of fiscal year 2002 information.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$8,782,781	\$7,289,749
Support Services:		
Pupils and Instructional Staff	1,033,945	945,002
Board of Education, Administration and Fiscal	1,972,321	1,971,209
Operation and Maintenance of Plant	1,711,160	1,448,342
Pupil Transportation	1,043,374	962,473
Central	66,221	36,577
Operation of Non-Instructional Services	757,142	48,738
Extracurricular Activities	508,546	217,375
Interest	355,228	355,228
Total Expenses	\$16,230,718	\$13,274,693

In November of 2000, the residents of the School District passed a \$7,443,000 Bond Levy as part of the Ohio School Facilities Construction Program. The School District built a new middle school which was opened in the fall of 2003. Construction of additions for the high school and New Concord Elementary were also completed by fall of 2003. Renovations and improvements to the high school, New Concord Elementary and the existing middle school which will be an intermediate school housing grades 3, 4, and 5 should be completed by the summer of 2004. The total construction project is \$28,737,357, with the local and state share being \$7,443,000 and \$21,294,357, respectively.

Instructional programs comprise approximately 54 percent of total governmental program expenses. Of the instructional expenses, approximately 82 percent is for regular instruction, 15 percent for special instruction, and 3 percent for vocational and other instructions.

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

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 82.4 percent of the School District's activities being supported through taxes and other general revenues.

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 \$25,878,871 and expenditures of \$31,196,538. The net change in fund balance before other financing sources and uses for the year was most significant in the Classroom Facilities Capital Projects Fund, a decrease of \$6,402,110. The change in the remaining governmental funds is reflecting an increase of \$1,084,443 which indicates that the School District has been consistent in meeting School District obligations.

Budgeting Highlights

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

During the course of fiscal year 2003, the School District amended its General Fund appropriations, but not significantly.

For the General Fund, budget basis revenues were \$657,482 above final estimates of \$12,608,413. Of this difference, most was due to conservative tax estimates, based on the County Auditor's Certification, and conservative state funding estimates.

The School District's ending unobligated general fund balance was \$1,482,923.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$21,093,062 invested in land, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets at June 30

	Governmental Activities	
	2003	2002
Land	\$144,115	\$144,115
Construction in Progress	17,868,364	2,862,837
Buildings and Improvements	1,890,887	2,037,886
Furniture, Fixtures, and Equipment	543,758	318,798
Vehicles	645,938	824,742
Totals	\$21,093,062	\$6,188,378

See Note 9 for more detailed information of the School District's capital assets.

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

Debt

At June 30, 2003, the School District had \$7,177,042 general obligation bonds outstanding, including \$59,042 in accumulated accretion, with \$235,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The School District had a capital lease outstanding at June 30, 2003 in the amount of \$43,880 with \$8,998 due in one year. See Note 17 for more detailed information about the School District's debt.

Set-asides

For fiscal year 2003, Ohio Law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2003, this amounted to \$281,998 for each set aside. For fiscal year 2003, the School District had qualifying disbursements or offsets exceeding the \$281,998 requirement for textbooks and capital maintenance. See Note 21 for additional information about the School District's set-asides.

Economic Factors

East Muskingum Local School District ended fiscal year 2003 with a negative cash flow primarily due to the construction costs incurred for the Ohio School Facilities Construction Program. Currently we are financially stable but there are some uncontrollable variables that will affect future revenues. Some of these include the elimination of the three year averaging for ADM, accelerated phase out of personal property tax on inventory, state deduction for fees from rollback and homestead funds, loss of .05 for vocational students and reducing bus subsidy by 52 percent.

Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christine L. White, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at cwhite@east-muskingum.k12.oh.us.

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East Muskingum Local School District, Ohio
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,171,176
Cash and Cash Equivalents in Segregated Accounts	292
Cash and Cash Equivalents with Escrow Agents	436,004
Accrued Interest Receivable	4,382
Accounts Receivable	9,484
Intergovernmental Receivable	2,187,665
Materials and Supplies Inventory	94,125
Inventory Held for Resale	5,421
Prepaid Items	145,987
Investments	9,063,897
Revenue in Lieu of Taxes Receivable	184,836
Property Taxes Receivable	5,497,384
Nondepreciable Capital Assets	18,012,479
Depreciable Capital Assets, Net	3,080,583
Total Assets	45,893,715
Liabilities	
Accounts Payable	160,225
Accrued Wages and Benefits Payable	1,332,974
Contracts Payable	1,000,303
Matured Compensated Absences Payable	20,537
Accrued Interest Payable	25,189
Intergovernmental Payable	437,873
Special Termination Benefits Payable	24,478
Retainage Payable	436,004
Claims Payable	138,521
Deferred Revenue	3,204,225
Energy Conservation Loan Payable	26,392
Long-Term Liabilities:	
Due Within One Year	476,514
Due In More Than One Year	7,815,099
Total Liabilities	15,098,334
Net Assets	
Invested in Capital Assets, Net of Related Debt	19,677,141
Restricted for:	
Capital Projects	8,557,690
Debt Service	460,730
Other Purposes	487,714
Unrestricted	1,612,106
Total Net Assets	\$30,795,381

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$7,239,715	\$143,688	\$203,725	\$0	(\$6,892,302)
Special	1,336,435	0	1,096,235	0	(240,200)
Vocational	206,631	0	49,384	0	(157,247)
Support Services:					
Pupils	367,683	0	9,306	0	(358,377)
Instructional Staff	666,262	0	79,637	0	(586,625)
Board of Education	49,136	0	0	0	(49,136)
Administration	1,603,840	0	1,112	0	(1,602,728)
Fiscal	319,345	0	0	0	(319,345)
Operation and Maintenance of Plant	1,711,160	665	0	262,153	(1,448,342)
Pupil Transportation	1,043,374	0	22,732	58,169	(962,473)
Central	66,221	0	29,644	0	(36,577)
Operation of Non-Instructional Services:					
Food Service Operations	751,257	476,582	224,544	0	(50,131)
Other Non-Instructional Services	5,885	0	7,278	0	1,393
Extracurricular Activities	508,546	291,171	0	0	(217,375)
Interest	355,228	0	0	0	(355,228)
Total Governmental Activities	\$16,230,718	\$912,106	\$1,723,597	\$320,322	(13,274,693)
General Revenues					
Property Taxes Levied for:					
General Purposes					3,913,460
Capital Outlay					453,183
Debt Service					524,477
Other Purposes					81,921
Grants and Entitlements not Restricted to Specific Programs					8,273,410
Investment Earnings					95,363
Payment in Lieu of Taxes					269,109
Miscellaneous					163,007
Total General Revenues					13,773,930
Change in Net Assets					499,237
Net Assets Beginning of Year (See Note 3)					30,296,144
Net Assets End of Year					\$30,795,381

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Balance Sheet
Governmental Funds
June 30, 2003

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,878,568	\$1,979,761	\$2,057,566	\$687,813	\$6,603,708
Cash and Cash Equivalents in Segregated Accounts	0	0	0	292	292
Cash and Cash Equivalents with Escrow Agents	0	0	436,004	0	436,004
Materials and Supplies Inventory	92,993	0	0	1,132	94,125
Inventory Held for Resale	0	0	0	5,421	5,421
Accounts Receivable	9,121	0	0	363	9,484
Intergovernmental Receivable	36,577	0	2,050,616	100,472	2,187,665
Investments	0	1,223,272	7,840,625	0	9,063,897
Accrued Interest Receivable	0	3,442	940	0	4,382
Prepaid Items	134,641	0	2,233	9,113	145,987
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	80,703	0	0	0	80,703
Revenue in Lieu of Taxes Receivable	147,594	18,616	0	18,626	184,836
Property Taxes Receivable	4,356,722	480,644	0	660,018	5,497,384
Total Assets	<u>\$6,736,919</u>	<u>\$3,705,735</u>	<u>\$12,387,984</u>	<u>\$1,483,250</u>	<u>\$24,313,888</u>
Liabilities					
Accounts Payable	\$129,265	\$23,968	\$0	\$6,992	\$160,225
Accrued Wages and Benefits Payable	1,221,812	0	0	111,162	1,332,974
Contracts Payable	0	0	1,000,303	0	1,000,303
Intergovernmental Payable	290,200	0	0	14,250	304,450
Accrued Interest Payable	104	0	0	0	104
Matured Compensated Absences Payable	20,537	0	0	0	20,537
Retainage Payable	0	0	436,004	0	436,004
Special Termination Benefits Payable	24,478	0	0	0	24,478
Deferred Revenue	2,951,547	316,841	2,050,616	432,710	5,751,714
Energy Conservation Loan Payable	26,392	0	0	0	26,392
Total Liabilities	<u>4,664,335</u>	<u>340,809</u>	<u>3,486,923</u>	<u>565,114</u>	<u>9,057,181</u>
Fund Balances					
Reserved for Encumbrances	318,403	231,688	6,048,736	67,011	6,665,838
Reserved for Unclaimed Monies	1,663	0	0	0	1,663
Reserved for Budget Stabilization	22,534	0	0	0	22,534
Reserved for Bus Purchase	58,169	0	0	0	58,169
Reserved for Property Taxes	1,418,866	163,803	0	227,308	1,809,977
Unreserved:					
Undesignated, Reported in:					
General Fund	252,949	0	0	0	252,949
Special Revenue Funds	0	0	0	384,893	384,893
Debt Service Funds	0	0	0	238,924	238,924
Capital Projects Funds	0	2,969,435	2,852,325	0	5,821,760
Total Fund Balances	<u>2,072,584</u>	<u>3,364,926</u>	<u>8,901,061</u>	<u>918,136</u>	<u>15,256,707</u>
Total Liabilities and Fund Balances	<u>\$6,736,919</u>	<u>\$3,705,735</u>	<u>\$12,387,984</u>	<u>\$1,483,250</u>	
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.					21,093,062
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:					
Property Taxes				483,182	
Accounts Receivable				5,048	
Grants				2,059,259	2,547,489
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.					
					348,244
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.					
					(133,423)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:					
General Obligation Bonds				(7,118,000)	
Accretion on Bonds				(59,042)	
Special Termination Benefits				(24,670)	
Compensated Absences				(1,046,021)	
Capital Leases				(43,880)	
Accrued Interest Payable				(25,085)	(8,316,698)
Net Assets of Governmental Activities					<u>\$30,795,381</u>

See accompanying notes to the basic financial statements

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

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$3,871,819	\$448,197	\$0	\$598,355	\$4,918,371
Payment in Lieu of Taxes	214,351	27,261	0	27,497	269,109
Intergovernmental	9,017,632	51,118	9,103,741	1,069,797	19,242,288
Interest	37,522	56,081	262,153	2,704	358,460
Tuition and Fees	149,052	0	0	0	149,052
Extracurricular Activities	75	0	0	291,096	291,171
Rentals	665	0	0	0	665
Charges for Services	0	0	0	476,582	476,582
Contributions and Donations	47	0	0	0	47
Miscellaneous	165,604	0	7,500	22	173,126
Total Revenues	13,456,767	582,657	9,373,394	2,466,053	25,878,871
Expenditures					
Current:					
Instruction:					
Regular	6,782,281	0	0	190,525	6,972,806
Special	850,106	0	0	431,541	1,281,647
Vocational	204,636	0	0	0	204,636
Other	61,473	0	0	0	61,473
Support Services:					
Pupils	371,249	0	0	11,590	382,839
Instructional Staff	560,913	0	0	101,163	662,076
Board of Education	44,877	0	0	0	44,877
Administration	1,549,067	0	0	2,547	1,551,614
Fiscal	288,243	10,587	0	13,807	312,637
Operation and Maintenance of Plant	1,126,786	38,483	1,267,870	0	2,433,139
Pupil Transportation	892,766	0	0	0	892,766
Central	27,331	0	0	38,318	65,649
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	697,184	697,184
Other Non-Instructional Services	0	0	0	5,885	5,885
Extracurricular Activities	205,455	0	0	301,880	507,335
Capital Outlay	49,822	0	14,507,634	0	14,557,456
Debt Service:					
Principal Retirement	5,942	0	0	230,000	235,942
Interest and Fiscal Charges	6,094	0	0	320,483	326,577
Total Expenditures	13,027,041	49,070	15,775,504	2,344,923	31,196,538
Excess of Revenues Over (Under) Expenditures	429,726	533,587	(6,402,110)	121,130	(5,317,667)
Other Financing Sources					
Proceeds from Sale of Capital Assets	6,758	0	0	0	6,758
Inception of Capital Lease	49,822	0	0	0	49,822
Total Other Financing Sources	56,580	0	0	0	56,580
Net Change in Fund Balances	486,306	533,587	(6,402,110)	121,130	(5,261,087)
Fund Balances Beginning of Year - Restated (See Note 3)	1,586,278	2,831,339	15,303,171	797,006	20,517,794
Fund Balances End of Year	<u>\$2,072,584</u>	<u>\$3,364,926</u>	<u>\$8,901,061</u>	<u>\$918,136</u>	<u>\$15,256,707</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
 Reconciliation of the Changes in Fund Balances of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds (\$5,261,087)

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

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

Fixed Asset Additions	15,344,076	
Current Year Depreciation	<u>(417,819)</u>	14,926,257

Governmental funds only report the disposal of fixed assets to the extent proceeds in the amount of \$16,877 were received. In the statement of activities, a loss has been reported for \$4,696. These amounts are used as a reconciling item between the statement of activities and the fund financial statements. (21,573)

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

Property Taxes	54,670	
Accounts Receivable	(5,364)	
Grants	<u>(9,188,103)</u>	(9,138,797)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability. (49,822)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 235,942

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,047

Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds on a full accrual basis. (29,698)

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:

Compensated Absences	(47,582)	
Special Termination Benefits	(24,670)	
Pension Obligation	<u>(14,300)</u>	(86,552)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net expense of the internal service fund is reported with governmental activities. (76,480)

Change in Net Assets of Governmental Activities \$499,237

See accompanying notes to the basic financial statements

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

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$3,536,576	\$3,536,576	\$3,849,016	\$312,440
Revenue in Lieu of Taxes	78,282	78,282	78,282	0
Intergovernmental	8,698,031	8,704,217	9,023,848	319,631
Interest	60,000	60,000	37,522	(22,478)
Tuition and Fees	122,142	122,142	135,538	13,396
Rentals	1,000	1,000	665	(335)
Contributions and Donations	0	0	47	47
Charges for Services	7,500	7,500	0	(7,500)
Miscellaneous	80,320	98,696	140,977	42,281
Total Revenues	12,583,851	12,608,413	13,265,895	657,482
Expenditures				
Current:				
Instruction:				
Regular	7,289,064	7,195,427	7,007,465	187,962
Special	826,613	868,664	850,450	18,214
Vocational	222,453	222,452	213,219	9,233
Other	76,654	76,373	71,701	4,672
Support Services:				
Pupils	361,940	406,995	373,038	33,957
Instructional Staff	590,154	611,014	606,051	4,963
Board of Education	51,935	56,044	55,328	716
Administration	1,556,268	1,589,670	1,560,655	29,015
Fiscal	315,770	318,270	292,498	25,772
Operation and Maintenance of Plant	1,198,962	1,206,152	1,155,971	50,181
Pupil Transportation	1,074,112	1,074,811	999,276	75,535
Central	32,110	32,110	28,108	4,002
Extracurricular Activities	215,057	215,057	204,955	10,102
Capital Outlay	9,309	10,199	9,000	1,199
Debt Service:				
Principal Retirement	5,942	5,942	5,942	0
Interest and Fiscal Charges	4,208	4,208	4,208	0
Total Expenditures	13,830,551	13,893,388	13,437,865	455,523
Excess of Revenues Under Expenditures	(1,246,700)	(1,284,975)	(171,970)	1,113,005
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	903	903	6,758	5,855
Refund of Prior Year Expenditures	0	0	27,338	27,338
Other Financing Uses	(25,000)	(416)	0	416
Transfers Out	(350,000)	(336,309)	0	336,309
Total Other Financing Sources (Uses)	(374,097)	(335,822)	34,096	369,918
Net Change in Fund Balance	(1,620,797)	(1,620,797)	(137,874)	1,482,923
Fund Balance Beginning of Year	1,158,078	1,158,078	1,158,078	0
Prior Year Encumbrances Appropriated	462,719	462,719	462,719	0
Fund Balance End of Year	\$0	\$0	\$1,482,923	\$1,482,923

East Muskingum Local School District, Ohio
Statement of Fund Net Assets
Self-Insurance Internal Service Fund
June 30, 2003

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$486,765</u>
Total Assets	<u>486,765</u>
Current Liabilities	
Claims Payable	<u>138,521</u>
Total Liabilities	<u>138,521</u>
Net Assets	
Unrestricted	<u><u>\$348,244</u></u>

See accompanying notes to the basic financial statements

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

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$1,449,063
Operating Expenses	
Purchased Services	221,051
Claims	1,304,492
Total Operating Expenses	1,525,543
Operating Loss	(76,480)
Net Assets Beginning of Year	424,724
Net Assets End of Year	\$348,244

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2003

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$1,449,063
Cash Payments for Goods and Services	(221,051)
Cash Payments for Claims	<u>(1,370,060)</u>
Net Cash Used for Operating Activities	(142,048)
Net Decrease in Cash and Cash Equivalents	(142,048)
Cash and Cash Equivalents Beginning of Year	<u>628,813</u>
Cash and Cash Equivalents End of Year	<u><u>\$486,765</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$76,480)
Decrease in Claims Payable	<u>(65,568)</u>
Net Cash Used for Operating Activities	<u><u>(\$142,048)</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$36,290</u></u>
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Liabilities

Due to Students	<u><u>\$36,290</u></u>
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See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

The East Muskingum Local School District, Muskingum County (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 through the consolidation of existing land areas and school districts. 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 92 classified employees and 155 certificated full-time teaching personnel who provide services to 2,131 students and other community members. The School District currently operates 6 instructional buildings, 2 administrative buildings, and 4 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 East Muskingum Local School District, this includes general operations, food service, and student related activities of the School District.

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

The School District participates in three organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), the Mid-East Ohio Career and Technology Centers, the School Study Council of Ohio, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio School Plan. These organizations are presented in Notes 18 and 19 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, Permanent Improvement Capital Projects and Classroom Facilities Capital Projects Funds are the major funds of the School District. The following is a description of these funds:

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

Permanent Improvement Fund The Permanent Improvement Capital Projects Fund is used to account for the accumulation of a local levy and transfers for the cost of acquiring, constructing, or improving permanent improvements within the School District.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Classroom Facilities Fund The Classroom Facilities Capital Projects Fund is used to account for the revenues and expenditures related to the construction and renovations of facilities of the School District being financed through bonds and monies received from the Ohio Department of Education.

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

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

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

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds that are not otherwise invested, including the proprietary fund, 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 segregated bank account for monies held separate from the School District's central bank account. This interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit which are reported at cost and money market mutual funds which are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$37,522, which includes \$11,452 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

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

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

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-30 years
Furniture, Fixtures and Equipment	5-15 years
Vehicles	3-10 years

I. Interfund Balances

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

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and revenues restricted for the purchase of buses. See Note 21 for additional information regarding set asides.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

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

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 General Fund.

L. 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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and general obligation bonds are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Activity

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

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved.

O. Net Assets

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

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

P. Operating Revenues and Expenses

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

Q. Extraordinary and Special Items

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

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

R. Estimates

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

S. Budgetary Data

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

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

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balances

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not affect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balances The fund classification was updated during fiscal year 2003 to reclassify the Food Service Fund, previously presented as an enterprise fund, to a special revenue fund. Also the Uniform School Supplies Fund, previously reported as an enterprise fund, is now combined with the General Fund. These reclassifications and the implementation of Interpretation No. 6 had the following effects on fund balances of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balances to net assets of governmental activities is also presented.

	General	Permanent Improvement	Classroom Facilities	Nonmajor Funds	Total
Fund Balances, June 30, 2002	\$1,559,238	\$2,831,339	\$15,303,171	\$708,955	\$20,402,703
Fund Reclassifications:					
Food Service	0	0	0	43,874	43,874
Uniform School Supplies	25,785	0	0	0	25,785
Interpretation No. 6:					
Long-Term Pension Obligation	0	0	0	33,697	33,697
Compensated Absences	1,255	0	0	10,480	11,735
Restated Fund Balances, June 30, 2002	<u>\$1,586,278</u>	<u>\$2,831,339</u>	<u>\$15,303,171</u>	<u>\$797,006</u>	20,517,794
GASB 34 Adjustments:					
Capital Assets					6,188,378
Internal Service Fund					424,724
Compensated Absences					(998,439)
General Obligation Bonds Payable					(7,348,000)
Accretion on Bonds					(29,344)
Accrued Interest Payable					(26,132)
Intergovernmental Payable					(119,123)
Deferred Revenue					<u>11,686,286</u>
Governmental Activities Net Assets, June 30, 2002					<u>\$30,296,144</u>

The transition from proprietary fund equity to net assets of the business-type activities is as follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	Food Service	Uniform School Supplies	Total
Fund Equity, June 30, 2002	\$75,654	\$25,785	\$101,439
Fund Reclassifications	(75,654)	(25,785)	(101,439)
Restated Business-Type Activities, June 30, 2002	\$0	\$0	\$0

Note 4 - Accountability

At June 30, 2003, the Title I and Drug Free Grant Special Revenue Funds had deficit fund balances in the amounts of \$13,619 and \$280, respectively. These deficits are due to adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balance

GAAP Basis	\$486,306
Net Adjustment for Revenue Accruals	(213,356)
Net Adjustment for Expenditure Accruals	92,931
Allocation of Revenue for Debt Payments	(29,821)
Principal Retirement	27,826
Interest and Fiscal Charges	1,995
Beginning of Fiscal Year:	
Prepaid Items	107,234
End of Fiscal Year:	
Prepaid Items	(134,641)
Adjustment for Encumbrances	(476,348)
Budget Basis	<u><u>(\$137,874)</u></u>

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$13,100,154 and the bank balance was \$14,020,282. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$13,820,282 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. Mutual fund investments are not classified by risk because they are not evidenced by securities that exist in physical or book entry form. Their fair value is \$3,456,832 at June 30, 2003.

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$7,643,762	\$9,063,897
Certificates of Deposit	9,063,897	(9,063,897)
Investment in Money Market Mutual Funds	(3,607,505)	3,607,505
GASB Statement 3	<u>\$13,100,154</u>	<u>\$3,607,505</u>

Note 7 - Property Taxes

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

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

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

Tangible personal property tax revenues received in calendar 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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 County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, personal property and public utility taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations. The amount available as an advance at June 30, 2003, was \$1,809,977. \$1,418,866 was available in the General Fund, \$30,707 in the Classroom Facilities Special Revenue Fund, \$196,601 in the Debt Service Fund, and \$163,803 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2002 was \$1,425,884 in the General Fund, \$30,511 in the Classroom Facilities Special Revenue Fund, \$195,283 in the Debt Service Fund, and \$162,949 in the Permanent Improvement Capital Projects Fund. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

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

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

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$145,340,350	83.29%	\$150,050,610	83.70%
Public Utility Personal	13,574,050	7.78%	14,195,150	7.92%
Tangible Personal Property	15,585,160	8.93%	15,024,075	8.38%
Total	<u>\$174,499,560</u>	<u>100.00%</u>	<u>\$179,269,835</u>	<u>100.00%</u>

Note 8 - Receivables

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

A summary of principal items of intergovernmental receivables follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	<u>Amounts</u>
Governmental Activities	
CAFS Reimbursement	\$8,851
Student Intervention	4,339
Title VI-B	16,307
Title I	19,821
Title II-A	41,227
Ohio School Facilities	2,050,616
Food Service Reimbursements	23,117
Tuition	23,387
Total	<u><u>\$2,187,665</u></u>

Note 9 - Capital Assets

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

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
Nondepreciable Capital Assets				
Land	\$144,115	\$0	\$0	\$144,115
Construction in Progress	2,862,837	15,005,527	0	17,868,364
Total Non-Depreciable Capital Assets	<u>3,006,952</u>	<u>15,005,527</u>	<u>0</u>	<u>18,012,479</u>
Depreciable Capital Assets				
Buildings and Improvements	10,278,535	37,275	0	10,315,810
Furniture, Fixtures, and Equipment	872,225	301,274	(59,752)	1,113,747
Vehicles	1,719,754	0	(53,424)	1,666,330
Total at Historical Cost	<u>12,870,514</u>	<u>338,549</u>	<u>(113,176)</u>	<u>13,095,887</u>
Less Accumulated Depreciation				
Buildings and Improvements	(8,240,649)	(184,274)	0	(8,424,923)
Furniture, Fixtures, and Equipment	(553,427)	(72,994)	56,432	(569,989)
Vehicles	(895,012)	(160,551)	35,171	(1,020,392)
Total Accumulated Depreciation	<u>(9,689,088)</u>	<u>(417,819) *</u>	<u>91,603</u>	<u>(10,015,304)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>3,181,426</u>	<u>(79,270)</u>	<u>(21,573)</u>	<u>3,080,583</u>
Governmental Activities Capital Assets, Net	<u><u>\$6,188,378</u></u>	<u><u>\$14,926,257</u></u>	<u><u>(\$21,573)</u></u>	<u><u>\$21,093,062</u></u>

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$137,149
Special	22,955
Vocational	74
Support Services:	
Pupils	1,493
Instructional Staff	784
Board of Education	2,954
Administration	29,352
Fiscal	4,000
Operation of Maintenance and Plant	28,611
Pupil Transportation	156,870
Central	572
Extracurricular	1,558
Food Service Operations	<u>31,447</u>
 Total Depreciation Expense	 <u><u>\$417,819</u></u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District purchased the following coverage:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

<u>Nationwide Insurance Company</u>		
Fleet Insurance:		
Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	
Comprehensive	actual cash value	
Physical Damage	actual cash value	
Collision	actual cash value	
<u>Handschy-Graham-Taylor Agency</u>		
Boiler and Machinery	\$3,000,000	
<u>Ohio School Plan</u>		
General Liability:		
Bodily Injury and Property Damage	\$1,000,000	each occurrence
Fire Damage	\$10,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$2,000,000	
Employment Practices	\$1,000,000	
Aggregate	\$2,000,000	
<u>Utica National Insurance Company</u>		
Building, Personal Property, and Contents	\$38,214,199	
Inland Marine	\$130,000	
Builders Risk Insurance	\$80,000	any one occurrence

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.

During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 19)

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. Worker's Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Central Benefits serves as claims servicer for medical/surgical coverage and CoreSource services as claims servicer for dental coverage. The claims liability of \$138,521 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$100,255	\$1,209,569	\$1,105,735	\$204,089
2003	204,089	1,304,492	1,370,060	138,521

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Board policy and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. With the exception of the Treasurer, unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days for all personnel and 200 days for the superintendent. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. Life Insurance

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

C. Special Termination Benefits Payable

Employees who retire are eligible for a special termination benefit. For every year of service credit with East Muskingum Local School District, up through ten years, employees are given one percent of their annual salary earned in the contract year of employment completed upon retirement. For every year of service credit with East Muskingum Local School District, between eleven and twenty years, employees are given one and one quarter percent of their annual salary earned in the contract year of employment completed upon retirement. For every year of service credit with East Muskingum Local School District, over twenty-one years, up through the final year of employment, employees are given one and one half percent of their annual salary earned in the contract year of employment completed upon retirement. Retiree's must notify the District by April 1 of each year as to their intent to retire and to apply for the special termination benefit. Payment of the special termination benefits 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 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$167,657, \$90,376, and \$65,280, respectively; 52 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$79,728 representing the unpaid contribution for fiscal year 2003, is recorded as a liability in the respective funds.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. State Teachers Retirement System

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

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

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

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

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

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$994,811, \$652,555, and \$629,166 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. Contributions for the DC and CP Plans for the fiscal year ended June 30, 2003, were \$3,601 made by the School District and \$234 made by plan members. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$76,524 for fiscal year 2003.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$154,930.

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 14 – Contractual Commitments

Project	Fund	Purchase Commitments	Amounts Paid as of 06/30/03	Amounts Remaining on Contracts
Middle School	School Facilities	\$10,178,831	\$8,930,931	\$1,247,900
High School Additions/ Renovations	School Facilities	9,186,616	5,114,442	4,072,174
Elementary Additions/ Renovations	School Facilities	2,421,385	1,028,307	1,393,078
Intermediate School	School Facilities	2,766,743	612,376	2,154,367

Note 15 – Fund Obligation

During fiscal year 2003, the School District had an energy conservation note outstanding which is a liability of the General Fund. Property tax revenues are being utilized for the payment of this obligation.

	Outstanding 06/30/02	Additions	Reductions	Outstanding 06/30/03
Energy Conservation Loan	\$54,218	\$0	\$27,826	\$26,392

Principal and interest requirements to retire the Energy Conservation Note outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30, 2004	Principal	Interest	Total
	\$26,392	\$654	\$27,046

Note 16 - Capitalized Leases

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30,	Governmental Activities
2004	\$12,180
2005	12,180
2006	12,180
2007	12,180
2008	3,045
Total Minimum Lease Payments	51,765
Less: Amount Representing Interest	(7,885)
Present Value of Minimum Lease Payments	<u>\$43,880</u>

The copiers have been originally capitalized in the amount of \$49,822, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation as of June 30, 2003 was \$6,927, leaving a current book value of \$42,895. Principal payments in fiscal year 2003 totaled \$5,942 in the governmental funds.

Note 17 - Long-Term Obligations

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

	Outstanding 06/30/02	Additions	Reductions	Outstanding 06/30/03	Due in One Year
Governmental Activities:					
2001 School Facilities Current Interest Serial Bonds - 4.85%	\$4,285,000	\$0	\$230,000	\$4,055,000	\$235,000
2001 School Facilities Current Interest Term Bonds - 5%	2,850,000	0	0	2,850,000	0
2001 School Facilities Capital Appreciation Bonds	213,000	0	0	213,000	0
Accumulated Accretion	29,344	29,698	0	59,042	0
Total General Obligation Bonds	<u>7,377,344</u>	<u>29,698</u>	<u>230,000</u>	<u>7,177,042</u>	<u>235,000</u>
Capital Leases	0	49,822	5,942	43,880	8,998
Compensated Absences Payable	998,439	192,124	144,542	1,046,021	207,846
Special Termination Benefits Payable	12,459	24,670	12,459	24,670	24,670
Total Long-Term Obligations	<u>\$8,388,242</u>	<u>\$296,314</u>	<u>\$392,943</u>	<u>\$8,291,613</u>	<u>\$476,514</u>

Compensated absences and the special termination 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, Miscellaneous Federal Grants, Title I, and Title II-A Special Revenue Funds. The capital lease will be paid from the General Fund.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

On April 19, 2001, the School District issued \$7,443,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new buildings. The School District must maintain a maintenance plan and submit it to the Ohio School Facilities Commission every five years for the term of the bond. As of June 30, 2003, the School District had \$6,315,003 in unspent bond proceeds in the Classroom Facilities Capital Projects Fund.

The bond issue consists of serial, term, and capital appreciation bonds. The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2018	\$420,000
2019	440,000

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

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2021	\$485,000
2022	510,000

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

The capital appreciation bonds mature December 1, 2009 and 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$610,000. For fiscal year 2003, \$29,698 was accreted for total bond liability of \$272,042.

Principal and interest payments to retire general obligation debt outstanding at June 30, 2003 are as follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Year	Principal	Interest	Total
2004	\$235,000	\$312,460	\$547,460
2005	255,000	303,758	558,758
2006	265,000	294,265	559,265
2007	270,000	284,232	554,232
2008-2012	1,093,000	1,693,662	2,786,662
2013-2017	1,750,000	1,021,002	2,771,002
2018-2022	1,720,000	547,075	2,267,075
2023-2024	1,530,000	52,875	1,582,875
Total	<u>\$7,118,000</u>	<u>\$4,509,329</u>	<u>\$11,627,329</u>

The School District's overall legal debt margin was \$9,255,209, with an unvoted debt margin of \$179,270 at June 30, 2003.

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302. During 2003, the School District paid \$52,000 for services with TRECA.

B. Mid-East Ohio Career and Technology Centers

The Mid-East Ohio Career and Technology Centers 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 13 participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The board controls the financial activity of the Joint Vocational School District and reports to the Ohio Department of Education and the Auditor of State of Ohio. To obtain financial information write to the Mid-East Career and Technology Centers, Richard White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701. The School District made no payments to the Joint Vocational School District during fiscal year 2003.

C. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and to vote. School districts may elect to be associate members, which entitles them to attend meetings and participate in Council discussions but not to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2003, the Board consisted of fourteen members. In fiscal year 2003, East Muskingum Local School District obtained active membership privileges and paid a membership fee of \$557.50.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 19 - Insurance Purchasing Pools

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

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

B. Ohio School Plan

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

Note 20 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

Note 21 - Set Asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345,

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation (BWC) refund monies remaining in the budget reserve set-aside. During fiscal year 2002, the Board enacted a resolution to spend the BWC monies for certain allowable costs. As of June 30, 2003, the School District expended \$40,751 and had \$22,534 remaining of the BWC monies to be used for professional development.

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2002	<u>\$63,285</u>	<u>(\$3,984,459)</u>	<u>(\$87,687)</u>
Current Year Set-aside Requirement	0	281,998	281,998
Qualifying Disbursements	<u>40,751</u>	<u>17,450</u>	<u>306,561</u>
Current Year Requirement less Qualifying Disbursements	(40,751)	264,548	(24,563)
Beginning Carryover Offsets/Excess Disbursements	0	3,984,459	87,687
Current Year Offsets/Excess Disbursements	<u>0</u>	<u>1,188,424</u>	<u>24,563</u>
Total Available as Offsets/Excess Disbursements	0	5,172,883	112,250
Current Year Application of Offsets/Excess Disbursements	0	264,548	0
Offsets/Excess Disbursements to be Carried Forward to Future Years	<u>0</u>	<u>4,908,335</u>	<u>112,250</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$22,534</u>	<u>\$0</u>	<u>\$0</u>

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

Note 22 - State School Funding Decision

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

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

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

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$61,276	\$0	\$61,276
School Breakfast Program	048835-05PU-2002	10.553	1,529		1,529	
School Breakfast Program	048835-05PU-2003	10.553	8,460		8,460	
Total School Breakfast Program			9,989		9,989	
National School Lunch Program	048835-LLP4-2002	10.555	19,194		19,194	
National School Lunch Program	048835-LLP4-2003	10.555	103,175		103,175	
Total National School Lunch Program			122,369		122,369	
Total U.S. Department of Agriculture - Child Nutrition Cluster			132,358	61,276	132,358	61,276
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	048835-C1S1-2002	84.010	31,121		48,344	
	048835-C1S1-2003	84.010	345,308		322,102	
Total Title I Grants to Local Educational Agencies			376,429		370,446	
Special Education Grants to States (Title VI-B)	048835-6BSF-2002	84.027	1,440		26,957	
	048835-6BSF-2003	84.027	162,021		145,304	
Total Special Education Grants to States			163,461		172,261	
Safe and Drug Free Schools and Communities State Grants	048835-DRS1-2002	84.186			6,720	
	048835-DRS1-2003	84.186	12,453		12,453	
Total Safe and Drug Free Schools and Communities State Grants			12,453		19,173	
Eisenhower Professional Development State Grants	048835-MSS1-2001	84.281			292	
	048835-MSS1-2002	84.281	1,416		7,386	
Total Eisenhower Professional Development Grants			1,416		7,678	
Innovative Education Program Strategies Grant (Title VI)	048835-C2S1-2001	84.298			154	
	048835-C2S1-2002	84.298	1,729		2,437	
	048835-C2S1-2003	84.298	24,755		22,619	
Total Innovative Education Program Strategies Grants			26,484		25,210	
Education Technology State Grants (Title II-D)	048835-TJS1-2003	84.318	7,999		6,983	
Class Size Reduction Grant (Title VI-R)	048835-CRS1-2001	84.340	1,078		6,793	
	048835-CRS1-2002	84.340	3,733		10,363	
Total Class Size Reduction Grants			4,811		17,156	
Assistive Technology Infusion Project	048835-ATS3-2002	84.352	15,647		15,657	
	048835-ATS3-2003	84.352	1,926		1,791	
Total Assistive Technology Infusion Project			17,573		17,448	
Improving Teacher Quality State Grants (Title II-A)	048835-TRS1-2003	84.367	46,247		44,585	
Total U.S. Department of Education			656,873		680,940	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of Job and Family Services and Ohio Department of Education:</i>						
Temporary Assistance to Needy Families	N/A	93.558	50,887		15,348	
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	28,968		28,968	
Total U.S. Department of Health and Human Services			79,855		44,316	
Total Federal Awards Receipts and Expenditures			\$869,086	\$61,276	\$857,614	\$61,276

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS DUE TO THE ELIMINATION OF CFDA NOS. 84.281 AND 84.340 AND TRANSFERS DUE TO REALLOCATION

For Program Year 2003, CFDA Nos. 84.281 (Eisenhower Professional Development State Grant) and 84.340 (Class Size Reduction Grant) were eliminated and replaced under CFDA No. 84.367 (Improving Teacher Quality State Grants). For the School District this elimination resulted in \$7,683 of carryover funds being transferred from CFDA No. 84.340 to CFDA No. 84.367. No funds were required to be transferred from CFDA No. 84.281 because all funds had already been liquidated. As disclosed in Note A above, the Schedule of Federal Awards Receipts and Expenditures is prepared on the cash basis of accounting, and therefore certain obligations incurred under the School District's 2002 allocations and liquidated during Fiscal Year 2003 continue to be reported under CFDA Nos. 84.281 and 84.340.

Effective for Fiscal Year 2003, Ohio Department of Education (ODE) permitted School Districts to reallocate funding between certain Federal programs, including, but not limited to, CFDA No. 84.367 (Improving Teacher Quality State Grants) and 84.298 (Innovative Education Program Strategies Grant). The School District reallocated \$13,000 between these two programs in November 2002.

The following table summarizes the transfers to eliminate and reallocate funding between Federal programs.

	CFDA No. 84.340	CFDA No. 84.367	CFDA No. 84.298
Grant Funds Received	\$11,416	\$51,564	\$11,755
Transfer to Eliminate	\$(7,683)	\$7,683	\$0
Transfer to Reallocate	\$0	\$(13,000)	\$13,000
Receipts Per Schedule	\$3,733	\$46,247	\$24,755

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

East Muskingum Local School District
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762-9702

To the Board of Education:

We have audited the basic financial statements of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 1, 2004, wherein we noted the School District implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed no instances of noncompliance that are required to be reported under *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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated April 1, 2004.

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East Muskingum Local School District
Muskingum County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

April 1, 2004



Auditor of State Betty Montgomery

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

Board of Education
East Muskingum Local School District
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762-9702

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 are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control over Compliance

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

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

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

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



Betty Montgomery
Auditor of State

April 1, 2004

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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EAST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 27, 2004**