



Dave Yost • Auditor of State

**EAST MUSKINGUM ACADEMY
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the East Muskingum Academy, Muskingum County, Ohio (the EMA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, for the period July 1, 2009 through July 1, 2010, which collectively comprise the EMA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the EMA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As disclosed in Note 7, on February 10, 2011, the East Muskingum Local School District, the Sponsor, passed a resolution to permanently close EMA effective July 1, 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Muskingum Academy, Muskingum County, Ohio, as of July 1, 2010, and the changes in financial position and cash flows, thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2011, on our consideration of the EMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 4, 2011

**East Muskingum Academy
Muskingum County**

***Management's Discussion and Analysis
For the Period Ended July 1, 2010
Unaudited***

The discussion and analysis of the East Muskingum Academy's (EMA) financial performance provides an overall review of the EMA's financial activities for the period ended July 1, 2010, the date of the East Muskingum Local School District (the Sponsor) Board's resolution to close the EMA. Readers should also review the basic financial statements and notes to enhance their understanding of the EMA's financial performance.

Highlights

EMA opened for its first year of operation in March 2006 as a kindergarten through twelfth grade site-based program within the East Muskingum Local School District (Sponsor). Each student receives a majority of their learning opportunities from a combination of site-based learning within the Sponsor's classrooms, internet-based learning opportunities that are primarily site-based, and non-internet based learning, which may include both conventional classroom-based coursework and nontraditional non-classroom-based learning experiences. During fiscal year 2008, twenty-eight students were enrolled at the EMA. Effective June 30, 2008, the East Muskingum Academy was granted a one year suspension of operations from the Ohio Department of Education and during fiscal year 2009, they were granted an additional year. During fiscal year 2011, the Sponsor passed a resolution to permanently close the operations of EMA effective July 1, 2010.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how EMA did financially during the period ended July 1, 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the period revenues and expenses regardless of when cash is received or paid.

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

EMA uses enterprise presentation for all of its activities.

**East Muskingum Academy
Muskingum County**

*Management's Discussion and Analysis
For the Period Ended July 1, 2010
Unaudited*

Table 1 provides a summary of EMA's net assets as of July 1, 2010 compared to fiscal year 2009:

Table 1 Net Assets			
	7/1/2010	2010	Change
<u>Assets:</u>			
Current Assets	\$29,490	\$29,490	\$0
<u>Liabilities:</u>			
Current Liabilities	29,490	0	29,490
<u>Net Assets:</u>			
Unrestricted (Deficit)	0	29,490	(29,490)
Total Net Assets	\$0	\$29,490	(\$29,490)

The increase in current liabilities and the decrease in net assets is the result of the closure of the EMA and the corresponding payments of all outstanding obligations and return of any remaining monies to the Ohio Department of Education.

Table 2 reflects the changes in net assets for the periods ended July 1, 2010 and June 30, 2009:

Table 2 Change in Net Assets			
	7/1/2010	2010	Change
<u>Operating Revenues:</u>			
Foundation	\$0	\$34,187	(\$34,187)
Total Revenues	0	34,187	(34,187)
<u>Extraordinary Item</u>			
Closeout Distributions	(29,490)	0	(29,490)
Change in Net Assets	(29,490)	34,187	(63,677)
Net Assets at Beginning of the Period	29,490	(4,697)	34,187
Net Assets (Deficit) at End of the Period	\$0	\$29,490	(\$29,490)

The change in Operating Revenues of \$34,187 was due to the EMA receiving their final two settlements in July and August 2008. The Sponsor passed a resolution to permanently close the EMA effective July 1, 2010. The EMA operations had been suspended for the two previous fiscal years and the final year of operation was in fiscal year 2008.

Budgeting

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

**East Muskingum Academy
Muskingum County**

*Management's Discussion and Analysis
For the Period Ended July 1, 2010
Unaudited*

Capital Assets and Debt Administration

Capital Assets

EMA did not possess any capital assets during the period ended July 1, 2010.

Debt

EMA did not incur any debt during the period ended July 1, 2010.

Contacting the EMA's Financial Management

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

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**East Muskingum Academy
Muskingum County, Ohio**

*Statement of Net Assets
July 1, 2010*

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	<u>\$29,490</u>
Total Assets	<u>\$29,490</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Intergovernmental Payable	<u>29,490</u>
Total Liabilities	<u>29,490</u>
 <u>Net Assets:</u>	
Unrestricted (Deficit)	<u>0</u>
Total Net Assets	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

East Muskingum Academy
Muskingum County, Ohio

Statement of Revenues, Expenses, and Changes in Net Assets
For the Period Ended July 1, 2010

<u>Extraordinary Item:</u>	
Closeout Distributions	<u>(\$29,490)</u>
Change in Net Assets	(29,490)
Net Assets at Beginning of Year	<u>29,490</u>
Net Assets (Deficit) at End of Year	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

East Muskingum Academy
Muskingum County, Ohio

Statement of Cash Flows
For the Period Ended July 1, 2010

Cash and Cash Equivalents Beginning of Year	<u>\$29,490</u>
Cash and Cash Equivalents End of Year	<u><u>\$29,490</u></u>

See accompanying notes to the basic financial statements

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East Muskingum Academy
Muskingum County, Ohio
For the Period Ended July 1, 2010

Note 1 - Description of the School

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

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

The Sponsor passed a resolution to permanently close EMA operations effective July 1, 2010.

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

Note 2 - Summary of Significant Accounting Policies

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

East Muskingum Academy
Muskingum County, Ohio
For the Period Ended July 1, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of EMA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how EMA financed and met its cash flow needs and the closeout for the period ended July 1, 2010.

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by EMA is reflected as "Cash and Cash Equivalents" on the statement of net assets. EMA had no investments during the period ended July 1, 2010.

F. Capital Assets

EMA follows the capital asset policy of the Sponsor. Therefore, EMA maintains a capitalization threshold of five thousand dollars. At July 1, 2010, EMA had no capital assets that met the threshold. All capital assets will be capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year.

East Muskingum Academy
Muskingum County, Ohio
For the Period Ended July 1, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Donated fixed assets will be recorded at their fair market values as of the date received. All of EMA's reported capital assets will be depreciated using the straight-line method over the estimated useful life.

G. Net Assets

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

H. Operating Revenues and Expenses

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

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

I. Estimates

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

J. Extraordinary Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. The extraordinary item reported on EMA's financial statements is to record the close out activity of the academy.

Note 3 – Contract with the Sponsor

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

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

East Muskingum Academy
Muskingum County, Ohio
For the Period Ended July 1, 2010

Note 3 – Contract with the Sponsor (Continued)

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

Note 4 – Risk Management

EMA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the period ended July 1, 2010, EMA had liability insurance through the Sponsor's policy.

Note 5 – Related Party Transactions

Of the five-member board of EMA, the Sponsor appoints all members. EMA is a component unit of the Sponsor.

Note 6 – Contingencies

A. Grants

EMA received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the EMA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the EMA at July 1, 2010.

B. Ohio Department of Education Enrollment Review

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

Note 7 – EMA Closure/Subsequent Events

On February 10, 2011 the Sponsor passed a resolution to permanently close EMA effective July 1, 2010. The Sponsor then agreed to purchase all equipment of the EMA. The EMA received \$29,290 from the Sponsor on March 2, 2011 for the book value of this equipment. This increased the amount of payables for the closeout distribution to \$58,780. This close out distribution in the amount of \$58,780 consisted of all outstanding liabilities related to the preparation of the July 1, 2010 financial statements and audit costs. Any remaining unused funds will be returned to the Ohio Department of Education.



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

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

To the Board of Directors:

We have audited the financial statements of the East Muskingum Academy, Muskingum County, Ohio (the EMA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, (the Sponsor), as of and for the period July 1, 2009 through July 1, 2010, which collectively comprise the EMA's basic financial statements and have issued our report thereon dated May 4, 2011, wherein we noted that the Sponsor passed a resolution to permanently close EMA effective July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the EMA's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the Board of Directors and the Sponsor, and others within the EMA. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 4, 2011



Dave Yost • Auditor of State

EAST MUSKINGUM ACADEMY

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2011**