



**Auditor of State
Betty Montgomery**

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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**Auditor of State
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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 general purpose financial statements of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the East Muskingum Local School District, Muskingum County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2003, 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.

The accompanying 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 general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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Betty Montgomery
Auditor of State

January 27, 2003

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,530,808	\$334,676	\$198,698	\$9,151,305
Cash and Cash Equivalents In Segregated Accounts		1,950		
Investments				8,815,132
Receivables:				
Property Taxes	4,128,006	75,631	545,192	476,698
Payment in Lieu of Taxes	11,525	178	1,136	1,371
Accounts	1,694			
Intergovernmental	29,928	136,644	23	11,154,374
Accrued Interest				56,449
Due from Other Funds	6,743			
Prepaid Items	107,234	6,980		2,218
Inventory Held for Resale				
Materials and Supplies Inventory	88,962			
Restricted Asset:				
Equity in Cash and Cash Equivalents	63,285			
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount Available in Debt Service for Retirement of General Obligation Bonds				
Amount to be Provided from General Government Resources				
Total Assets and Other Debits	\$5,968,185	\$556,059	\$745,049	\$29,657,547

The notes to the financial statements are an integral part of this statement.

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$134,086	\$628,813	\$38,921	\$0	\$0	\$12,017,307
		50,560			52,510
					8,815,132
					5,225,527
					14,210
					1,694
					11,320,969
					56,449
871					7,614
1,950					118,382
5,027					5,027
1,221					90,183
					63,285
31,781			14,421,123		14,452,904
				395,140	395,140
				8,054,334	8,054,334
\$174,936	\$628,813	\$89,481	\$14,421,123	\$8,449,474	\$60,690,667

(continued)

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002
(Continued)**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	\$160,039	\$25,042	\$0	\$2,935
Accrued Wages and Benefits Payable	1,158,978	74,546		
Compensated Absences Payable	9,948			
Retainage Payable				45,282
Intergovernmental Payable	299,148	5,041		
Deferred Revenue	2,713,142	137,517	349,909	11,468,106
Due to Other Funds	802	6,812		
Due to Students				
Accrued Interest Payable	213			
Claims Payable				
Energy Conservation Loan Payable	54,218			
General Obligation Bonds Payable				
Special Termination Benefits Payable	12,459			
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	4,408,947	248,958	349,909	11,516,323
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved (Deficit)				
Fund Balance:				
Reserved for Encumbrances	272,021	17,112		4,882,906
Reserved for Unclaimed Monies	1,343			
Reserved for Property Taxes	1,425,884	30,511	195,283	162,949
Reserved for Budget Stabilization	63,285			
Reserved for Inventory	88,962			
Unreserved, Undesignated (Deficit)	(292,257)	259,478	199,857	13,095,369
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Equity and Other Credits	1,559,238	307,101	395,140	18,141,224
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities, Fund Equity and Other Credits	<u>\$5,968,185</u>	<u>\$556,059</u>	<u>\$745,049</u>	<u>\$29,657,547</u>

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$1,216	\$0	\$0	\$0	\$0	\$189,232
17,373					1,250,897
10,480				986,704	1,007,132
					45,282
44,427		50,560		85,426	484,602
					14,668,674
					7,614
		38,921			38,921
					213
	204,089				204,089
					54,218
				7,377,344	7,377,344
					12,459
<u>73,496</u>	<u>204,089</u>	<u>89,481</u>	<u>0</u>	<u>8,449,474</u>	<u>25,340,677</u>
			14,421,123		14,421,123
219,747					219,747
(118,307)	424,724				306,417
					5,172,039
					1,343
					1,814,627
					63,285
					88,962
					13,262,447
<u>101,440</u>	<u>424,724</u>	<u>0</u>	<u>14,421,123</u>	<u>0</u>	<u>35,349,990</u>
<u>\$174,936</u>	<u>\$628,813</u>	<u>\$89,481</u>	<u>\$14,421,123</u>	<u>\$8,449,474</u>	<u>\$60,690,667</u>

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2002**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Property Taxes	\$3,779,539	\$78,138	\$500,101	\$434,219	\$4,791,997
Payment in Lieu of Taxes	23,050	356	2,273	2,742	28,421
Intergovernmental	8,692,285	707,905	59,966	9,763,546	19,223,702
Interest	57,434	1,490	914	444,829	504,667
Tuition and Fees	102,974				102,974
Extracurricular Activities		302,378			302,378
Rent	4,920				4,920
Miscellaneous	75,528	405		22,000	97,933
Total Revenues	12,735,730	1,090,672	563,254	10,667,336	25,056,992
Expenditures:					
Current:					
Instruction:					
Regular	6,494,521	173,170			6,667,691
Special	770,864	437,227			1,208,091
Vocational	212,327				212,327
Other	64,618				64,618
Support Services:					
Pupils	305,600	10,089			315,689
Instructional Staff	567,741	72,847			640,588
Board of Education	38,191				38,191
Administration	1,455,706	3,162			1,458,868
Fiscal	253,388	1,792	11,472		266,652
Operation and Maintenance of Plant	996,341				996,341
Pupil Transportation	1,028,003	1,249			1,029,252
Central	31,176	15,959			47,135
Extracurricular Activities	135,886	270,181			406,067
Non-Instructional Services	13,235	5,757			18,992
Capital Outlay	65,437			2,970,369	3,035,806
Debt Service:					
Principal			95,000		95,000
Interest and Fiscal Charges	3,262		364,113		367,375
Total Expenditures	12,436,296	991,433	470,585	2,970,369	16,868,683
Excess of Revenues Over Expenditures	299,434	99,239	92,669	7,696,967	8,188,309
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	8,634				8,634
Operating Transfers In				425,000	425,000
Operating Transfers Out	(425,000)				(425,000)
Total Other Financing Sources (Uses)	(416,366)	0	0	425,000	8,634
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(116,932)	99,239	92,669	8,121,967	8,196,943
Fund Balances at Beginning of Year	1,669,118	207,862	302,471	10,019,257	12,198,708
Increase in Reserve for Inventory	7,052				7,052
Fund Balances at End of Year	\$1,559,238	\$307,101	\$395,140	\$18,141,224	\$20,402,703

The notes to the financial statements are an integral part of this statement.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Property Taxes	\$3,793,108	\$3,793,108	\$0
Intergovernmental	8,561,686	8,694,645	132,959
Interest	143,000	57,434	(85,566)
Tuition and Fees	82,097	105,201	23,104
Extracurricular Activities			
Rent	800	4,920	4,120
Miscellaneous	89,353	67,959	(21,394)
Total Revenues	12,670,044	12,723,267	53,223
Expenditures:			
Current:			
Instruction:			
Regular	7,149,815	6,663,418	486,397
Special	848,786	761,145	87,641
Vocational	221,176	219,763	1,413
Other	69,927	64,646	5,281
Support Services:			
Pupils	321,490	304,150	17,340
Instructional Staff	581,059	569,952	11,107
Board of Education	46,692	41,284	5,408
Administration	1,525,051	1,458,183	66,868
Fiscal	280,196	254,194	26,002
Operation and Maintenance of Plant	1,111,977	1,079,936	32,041
Pupil Transportation	1,080,032	1,048,648	31,384
Central	31,740	31,526	214
Extracurricular Activities	206,548	203,211	3,337
Non-Instructional Services			
Capital Outlay	67,301	66,937	364
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	13,541,790	12,766,993	774,797
Excess of Revenues Over (Under) Expenditures	(871,746)	(43,726)	828,020
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	500	8,634	8,134
Operating Transfers In			
Operating Transfers Out	(500,000)	(425,000)	75,000
Total Other Financing Sources (Uses)	(499,500)	(416,366)	83,134
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,371,246)	(460,092)	911,154
Fund Balances at Beginning of Year	1,054,239	1,054,239	0
Prior Year Encumbrances Appropriated	540,336	540,336	0
Fund Balances at End of Year	\$223,329	\$1,134,483	\$911,154

The notes to the financial statements are an integral part of this statement.

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$79,269	\$78,659	(\$610)	\$564,120	\$534,625	(\$29,495)
671,589	691,349	19,760		61,080	61,080
	1,490	1,490		914	914
282,395	302,378	19,983			
405	405	0			
<u>1,033,658</u>	<u>1,074,281</u>	<u>40,623</u>	<u>564,120</u>	<u>596,619</u>	<u>32,499</u>
196,195	176,709	19,486			
459,275	433,716	25,559			
11,291	10,021	1,270			
79,958	65,963	13,995			
3,254	3,188	66			
2,000	1,792	208	11,472	11,472	0
125,613		125,613			
1,249	1,249	0			
27,882	17,805	10,077			
329,999	278,813	51,186			
7,000	5,757	1,243			
			289,025	122,826	166,199
			<u>367,485</u>	<u>367,485</u>	<u>0</u>
<u>1,243,716</u>	<u>995,013</u>	<u>248,703</u>	<u>667,982</u>	<u>501,783</u>	<u>166,199</u>
<u>(210,058)</u>	<u>79,268</u>	<u>289,326</u>	<u>(103,862)</u>	<u>94,836</u>	<u>198,698</u>
0	0	0	0	0	0
(210,058)	79,268	289,326	(103,862)	94,836	198,698
185,230	185,230	0	103,862	103,862	0
34,311	34,311	0	0	0	0
<u>\$9,483</u>	<u>\$298,809</u>	<u>\$289,326</u>	<u>\$0</u>	<u>\$198,698</u>	<u>\$198,698</u>

(continued)

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2002
(Continued)**

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property Taxes	\$417,175	\$439,005	\$21,830
Intergovernmental	9,734,516	9,764,900	30,384
Interest	40,000	490,383	450,383
Tuition and Fees			
Extracurricular Activities			
Rent			
Miscellaneous		22,000	22,000
Total Revenues	10,191,691	10,716,288	524,597
Expenditures:			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Other			
Support Services:			
Pupils			
Instructional Staff			
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Extracurricular Activities			
Non-Instructional Services			
Capital Outlay	19,906,244	7,817,370	12,088,874
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	19,906,244	7,817,370	12,088,874
Excess of Revenues Over (Under) Expenditures	(9,714,553)	2,898,918	12,613,471
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets			
Operating Transfers In		425,000	425,000
Operating Transfers Out			
Total Other Financing Sources (Uses)	0	425,000	425,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(9,714,553)	3,323,918	13,038,471
Fund Balances at Beginning of Year	9,569,578	9,569,578	0
Prior Year Encumbrances Appropriated	144,975	144,975	0
Fund Balances at End of Year	\$0	\$13,038,471	\$13,038,471

The notes to the financial statements are an integral part of this statement.

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$4,853,672	\$4,845,397	(\$8,275)
18,967,791	19,211,974	244,183
183,000	550,221	367,221
82,097	105,201	23,104
282,395	302,378	19,983
800	4,920	4,120
89,758	90,364	606
<u>24,459,513</u>	<u>25,110,455</u>	<u>650,942</u>
7,346,010	6,840,127	505,883
1,308,061	1,194,861	113,200
221,176	219,763	1,413
69,927	64,646	5,281
332,781	314,171	18,610
661,017	635,915	25,102
46,692	41,284	5,408
1,528,305	1,461,371	66,934
293,668	267,458	26,210
1,237,590	1,079,936	157,654
1,081,281	1,049,897	31,384
59,622	49,331	10,291
536,547	482,024	54,523
7,000	5,757	1,243
19,973,545	7,884,307	12,089,238
289,025	122,826	166,199
<u>367,485</u>	<u>367,485</u>	<u></u>
<u>35,359,732</u>	<u>22,081,159</u>	<u>13,278,573</u>
<u>(10,900,219)</u>	<u>3,029,296</u>	<u>13,929,515</u>
500	8,634	8,134
0	425,000	425,000
<u>(500,000)</u>	<u>(425,000)</u>	<u>75,000</u>
<u>(499,500)</u>	<u>8,634</u>	<u>508,134</u>
(11,399,719)	3,037,930	14,437,649
10,912,909	10,912,909	0
<u>719,622</u>	<u>719,622</u>	<u>0</u>
<u>\$232,812</u>	<u>\$14,670,461</u>	<u>\$14,437,649</u>

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating Revenues:			
Sales	\$511,508	\$0	\$511,508
Charges for Services		1,223,745	1,223,745
Total Operating Revenues	<u>511,508</u>	<u>1,223,745</u>	<u>1,735,253</u>
Operating Expenses:			
Salaries	256,243		256,243
Fringe Benefits	101,379		101,379
Purchased Services	18,711	188,384	207,095
Materials and Supplies	37,827		37,827
Cost of Sales	320,780		320,780
Depreciation	4,616		4,616
Claims		1,209,569	1,209,569
Total Operating Expenses	<u>739,556</u>	<u>1,397,953</u>	<u>2,137,509</u>
Operating Loss	<u>(228,048)</u>	<u>(174,208)</u>	<u>(402,256)</u>
Non-Operating Revenues:			
Federal Donated Commodities	60,271		60,271
Interest Income	1,501		1,501
Federal and State Subsidies	156,429		156,429
Total Non-Operating Revenues	<u>218,201</u>	<u>0</u>	<u>218,201</u>
Net Loss	(9,847)	(174,208)	(184,055)
Retained Earnings (Deficit) at Beginning of Year (Restated - Note 3)	<u>(108,460)</u>	<u>598,932</u>	<u>490,472</u>
Retained Earnings (Deficit) at End of Year	(118,307)	424,724	306,417
Contributed Capital at Beginning and End of Year	<u>219,747</u>	<u>0</u>	<u>219,747</u>
Total Fund Equity at End of Year	<u><u>\$101,440</u></u>	<u><u>\$424,724</u></u>	<u><u>\$526,164</u></u>

The notes to the financial statements are an integral part of this statement.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL
ALL PROPRIETARY FUND TYPES
JUNE 30, 2002**

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$488,000	\$510,637	\$22,637
Charges for Services			
Interest	5,000	1,501	(3,499)
Operating Grants	141,500	156,429	14,929
Total Revenues	634,500	668,567	34,067
Expenses:			
Salaries	264,890	249,221	15,669
Fringe Benefits	105,503	100,916	4,587
Purchased Services	33,180	22,253	10,927
Materials and Supplies	367,814	304,038	63,776
Claims			
Total Expenses	771,387	676,428	94,959
Excess of Revenues Over (Under) Expenses	(136,887)	(7,861)	129,026
Fund Equity at Beginning of Year	131,503	131,503	0
Prior Year Encumbrances Appropriated	5,384	5,384	0
Fund Equity at End of Year	\$0	\$129,026	\$129,026

The notes to the financial statements are an integral part of this statement.

Internal Service Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$488,000	\$510,637	\$22,637
1,160,351	1,223,745	63,394	1,160,351	1,223,745	63,394
			5,000	1,501	(3,499)
			141,500	156,429	14,929
<u>1,160,351</u>	<u>1,223,745</u>	<u>63,394</u>	<u>1,794,851</u>	<u>1,892,312</u>	<u>97,461</u>
			264,890	249,221	15,669
			105,503	100,916	4,587
753,803	188,384	565,419	786,983	210,637	576,346
			367,814	304,038	63,776
<u>1,105,735</u>	<u>1,105,735</u>	<u>0</u>	<u>1,105,735</u>	<u>1,105,735</u>	<u>0</u>
<u>1,859,538</u>	<u>1,294,119</u>	<u>565,419</u>	<u>2,630,925</u>	<u>1,970,547</u>	<u>660,378</u>
(699,187)	(70,374)	628,813	(836,074)	(78,235)	757,839
699,187	699,187	0	830,690	830,690	0
			5,384	5,384	0
<u><u>\$0</u></u>	<u><u>\$628,813</u></u>	<u><u>\$628,813</u></u>	<u><u>\$0</u></u>	<u><u>\$757,839</u></u>	<u><u>\$757,839</u></u>

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
JUNE 30, 2002**

	Enterprise	Internal Service	Totals (Memorandum Only)
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Sales	\$510,637	\$0	\$510,637
Cash Received from Quasi-External Transactions with Other Funds		1,223,745	1,223,745
Cash Payments to Suppliers for Goods and Services	(321,231)	(188,384)	(509,615)
Cash Payments for Employee Services	(249,221)		(249,221)
Cash Payments for Employee Benefits	(100,916)		(100,916)
Cash Payments for Claims		(1,105,735)	(1,105,735)
	<u>(160,731)</u>	<u>(70,374)</u>	<u>(231,105)</u>
Net Cash Used for Operating Activities			
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	156,429		156,429
Cash Flows from Investing Activities:			
Interest Income	1,501		1,501
	<u>(2,801)</u>	<u>(70,374)</u>	<u>(73,175)</u>
Net Decrease in Cash and Cash Equivalents			
Cash and Cash Equivalents at Beginning of Year	136,887	699,187	836,074
	<u>\$134,086</u>	<u>\$628,813</u>	<u>\$762,899</u>
Cash and Cash Equivalents at End of Year			
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:			
Operating Loss	(\$228,048)	(\$174,208)	(\$402,256)
Depreciation	4,616		4,616
Donated Commodities Used During the Year	60,271		60,271
Changes in Assets and Liabilities:			
Increase in Due from Other Funds	(871)		(871)
Increase in Prepaid Items	(102)		(102)
Decrease in Inventory Held for Resale	574		574
Increase in Materials and Supplies Inventory	(122)		(122)
Increase in Accounts Payable	469		469
Increase in Accrued Wages and Benefits Payable	12,854		12,854
Increase in Compensated Absences Payable	415		415
Decrease in Deferred Revenue	(3,156)		(3,156)
Decrease in Intergovernmental Payable	(1,384)		(1,384)
Decrease in Special Termination Benefits Payable	(6,247)		(6,247)
Increase in Claims Payable		103,834	103,834
	<u>67,317</u>	<u>103,834</u>	<u>171,151</u>
Total Adjustments			
	<u>(\$160,731)</u>	<u>(\$70,374)</u>	<u>(\$231,105)</u>
Net Cash Used for Operating Activities			

Non-Cash Transactions:

During fiscal year 2002, the School District received \$60,271 in federally donated commodities revenue in the Food Service Enterprise Fund.

The notes to the financial statements are an integral part of this statement.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The East Muskingum Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1958 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 89 classified employees and 154 certificated full-time teaching personnel who provide services to 2,184 students and other community members. The School District currently operates 5 instructional buildings, 2 administrative buildings, and 1 garage.

Reporting Entity:

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the 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 Vocational School District, 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 19 and 20 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the East Muskingum Local 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund types) are accounted for through governmental funds. The following are the School District's governmental fund types:

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. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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 sixty days of fiscal year-end.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which 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 fiscal 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 non-exchange transactions must also be available before it can be recognized.

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

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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, including depreciation and amortization, are not recognized in the governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and the fair value of donated commodities received is reported on the income statement as non-operating revenue.

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid. In addition, the Athletic and Music Special Revenue Fund has a segregated checking account whose activity is not included as part of the School District's annual budget.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Muskingum County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriation resolution was passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the fiscal year for all funds other than agency funds, consistent with statutory provisions.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined 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 combined balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury. Also, any undistributed amounts in the School District's payroll clearing account are presented as "cash and cash equivalents in segregated accounts".

During fiscal year 2002, investments were limited to money market mutual funds which are reported at fair value and nonparticipating investment contracts such as nonnegotiable certificates of deposit which are reported at cost.

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 2002, amounted to \$57,434, which includes \$19,127 from other School District funds. The Classroom Facilities Maintenance Special Revenue Fund, Debt Service Fund, and Permanent Improvement Capital Projects Fund also received interest during fiscal year 2002 in the amounts of \$1,490, \$914, and \$444,829, respectively.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost in the general fixed assets account group.

Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed 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 have any infrastructure.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of ten to twenty years.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 only records a liability for accumulated unused vacation time when earned for the district's treasurer whose contract is valid from January 1st through December 31st of any given year. For the remainder of the School District's employees with one or more years of service, vacation hours earned in a fiscal year may not be accumulated and carried forward to the next fiscal year.

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 for certificated employees, administrators, and classified employees after fifteen years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after fiscal year end are considered to have used current available financial resources. Bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the activity of the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for 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 are established for encumbrances, inventories of supplies and materials, unclaimed monies, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved.

M. Designated Fund Balance

The School District has a fund balance designation on the balance sheet for money set aside for budget stabilization to protect against cyclical changes in revenues and expenditures.

N. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from other funds prior to fiscal year 2002. A determination of the amount of contributed capital received prior to 1996 has not been made. Starting with fiscal year 2001, capital contributions are reported as non-operating revenue and will be recorded as increases in retained earnings based on new guidelines established by Governmental Accounting Standards Board Statement No. 33 "Accounting and Reporting for Nonexchange Transactions". The School District's enterprise funds did not receive any capital contributions during fiscal year 2002.

O. 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.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 3 - CHANGES IN ACCOUNTING ESTIMATES AND RESULTING RESTATEMENTS

For fiscal year 2002, the School District has increased the capitalization threshold for fixed assets from five hundred dollars to five thousand dollars. The School District also revised the estimated useful life of enterprise fixed assets from 20 years to 12 years. The net effect of these changes is summarized below:

	Enterprise Fixed Assets	General Fixed Assets Account Group	Enterprise Retained Earnings
Balance at June 30, 2001	\$110,006	\$14,616,646	(\$34,851)
Net Adjustment	(73,609)	(1,858,255)	(73,609)
Restated Balance at June 30, 2001	\$36,397	\$12,758,391	(\$108,460)

The June 30, 2001 balance of compensated absences payable in the general long-term obligation account group has been restated from \$785,045 to \$882,313, due to more accurate information becoming available.

NOTE 4 - ACCOUNTABILITY

The Title I Special Revenue Fund had a deficit fund balance in the amount of \$ 7,387 due to the recognition of payables in accordance with Generally Accepted Accounting Principles. The General Fund provides operating transfers for this fund but only as cash is required, not as deficits occur. The Food Service Enterprise Fund had deficit retained earnings of \$101,240. The School District is analyzing food service operations to determine appropriate steps to alleviate the deficit.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types are 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 basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

5. Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
6. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$116,932)	\$99,239	\$92,669	\$8,121,967
Net Adjustment for Revenue Accruals	(43,661)	(16,391)	64,563	48,952
Excess Amount for Non-Budgeted Activity	0	114	0	0
Allocation of Revenue for Debt Payments	31,198	0	(31,198)	0
Net Adjustment for Expenditures Accruals	116,397	35,856	0	38,840
Prepaid Items	(18,792)	(3,683)	0	0
Principal Payments	27,826	0	(27,826)	0
Interest and Fiscal Charges	3,482	0	(3,372)	0
Encumbrances	(459,610)	(35,867)	0	(4,885,841)
Budget Basis	<u>(\$460,092)</u>	<u>\$79,268</u>	<u>\$94,836</u>	<u>\$3,323,918</u>

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Loss/Excess of Revenues Under Expenses All Proprietary Fund Types		
	Enterprise	Internal Service
GAAP Basis	(\$9,847)	(\$174,208)
Net Adjustment for Revenue Accruals	(871)	0
Net Adjustment for Expense Accruals	6,199	103,834
Commodities	(2,674)	0
Prepaid Items	(102)	0
Materials and Supplies Inventory	(122)	0
Depreciation Expense	4,616	0
Encumbrances	(5,060)	0
Budget Basis	(\$7,861)	(\$70,374)

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 demand 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 accounts including passbook accounts.

Protection of the 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:

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the 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 the 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 be 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) 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); and
7. Certain bankers' 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 moneys available for investment at any one time.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$18,733,413 and the bank balance was \$19,067,476. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$18,867,476 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and 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 categorized 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 for which the securities 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. The School District's investments at June 30, 2002, were in money market mutual funds which are not classified as to risk since the investment is not evidenced by securities that exist in physical or book entry form. The fair value is \$2,214,821 at June 30, 2002.

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 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$12,133,102	\$8,815,132
Certificate of Deposit with a maturity of more than 3 months	8,815,132	(8,815,132)
Investments in Money Market Mutual Funds	(2,214,821)	2,214,821
GASB Statement 3	\$18,733,413	\$2,214,821

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, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 7 - PROPERTY TAXES (Continued)

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true 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.

Tangible personal property taxes 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.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance is recognized as revenue. 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 assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections	2002 First- Half Collections
Real Property	\$141,979,000	\$145,340,350
Public Utility Personal Property	17,996,550	13,574,050
Tangible Personal Property	13,501,815	15,585,160
Total Assessed Value	\$173,477,365	\$174,499,560
 Tax Rate per \$1,000 of Assessed Valuation	 \$40.01	 \$40.01

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, payment in lieu of taxes, accounts (tuition, billings for user charged services, and student fees), intergovernmental grants, and accrued 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Fund Type/Source	Amount
General Fund:	
Homestead and Rollback	\$158
Tuition	17,965
CAFS Reimbursement	11,213
Miscellaneous Reimbursements	592
Total General Fund	29,928
Special Revenue Funds:	
Homestead and Rollback	4
Drug Free Grant	1,078
Eisenhower Grant	1,416
Ohio READS	45,000
Title I Grant	32,364
Title VIB	1,440
Title VIR Grant	53,613
Title VI Grant	1,729
Total Special Revenue Funds	136,644
Debt Service Fund:	
Homestead and Rollback	23
Capital Projects Funds:	
Ohio School Facilities	11,154,357
Homestead and Rollback	17
Total Capital Projects Funds	11,154,374
Total All Funds	\$11,320,969

On December 1, 2000, the School District was awarded a \$21,294,357 grant for renovations and additions to various school buildings within the School District under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State would pay for a portion of the estimated project costs. As part of the process, the School District maintains a fund into which a one-half mill levy is receipted for facilities maintenance. In addition, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years for a twenty-three year period which began on December 1, 2001. As of the end of fiscal year 2002, the School District had received \$10,140,000 of the amount awarded under this program. The remaining amount of \$11,154,357 is recorded as a receivable and deferred revenue on the balance sheet.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 9 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$134,323
Accumulated Depreciation	(102,542)
Net Fixed Assets	\$31,781

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Category	Restated Balance at 06/30/01	Additions	Deletions	Balance at 06/30/02
Land	\$144,115	\$0	\$0	\$144,115
Buildings	10,249,538	163,597	0	10,413,135
Furniture, Fixtures and Equipment	730,667	0	5,120	725,547
Vehicles	1,634,071	240,292	154,608	1,719,755
Construction in Progress	0	1,418,571	0	1,418,571
Total	\$12,758,391	\$1,822,460	\$159,728	\$14,421,123

NOTE 10 - RISK MANAGEMENT

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 2002, the School District purchased the following coverage:

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

<u>Nationwide Insurance Company</u>		
Fleet Insurance:		
Liability	\$2,000,000	any one accident
Auto Medical Payments	\$5,000	
Uninsured Motorists	\$2,000,000	
Comprehensive	actual cash value	
Physical Damage	actual cash value	
Collision	actual cash value	
Inland Marine	\$48,675	
 <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 and Personal Property	\$30,535,359	
Builders Risk Insurance	\$80,000	any one occurrence
Contents	\$2,500-\$100,000	per building
Data Processing	\$10,000-\$50,000	per building

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.

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). 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 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.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

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 Core Source serves as claims servicer for dental coverage. The claims liability of \$204,089 reported in the internal service fund at June 30, 2002, 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 the increased claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2001	\$162,773	\$732,721	\$795,239	\$100,255
2002	100,255	1,209,569	1,105,735	204,089

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

East Muskingum Local School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit 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 State statute per 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund the 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, 2002, 2001, and 2000 were \$90,376, \$65,280 and \$78,208 respectively; 41.2 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$53,151 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic 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.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2001, the portion used to fund pension obligations was also 9.5 percent. 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, 2002, 2001, and 2000 were \$652,555, \$629,166 and \$380,400, respectively; 83.8 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$105,966 represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

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, 2002, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - 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 Systems 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 cost will be absorbed by STRS. Most benefit recipients pay a portion of the 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, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$309,105 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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 the premium.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$152,871.

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 at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

NOTE 13 - 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. 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.

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 Benefit 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. The special termination benefit payable as of June 30, 2002, is reflected on the combined balance sheet in the General Fund in the amount of \$12,459.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 14 – CONTRACTUAL COMMITMENTS

Project	Fund	Purchase Commitments	Amounts Paid as of 06/30/02	Amounts Remaining on Contracts
Middle School	School Facilities	\$9,951,159	\$1,314,211	\$8,636,948
High School Additions/ Renovations	School Facilities	8,397,882	70,050	8,327,832
Elementary Additions/ Renovations	School Facilities	2,219,988	0	2,219,988

NOTE 15 - FUND OBLIGATION

During fiscal year 2002, 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 06/30/01	Additions	Reductions	Outstanding 06/30/02
Energy Conservation Loan	\$82,044	\$0	\$27,826	\$54,218

Principal and interest requirements to retire the Energy Conservation Note outstanding at June 30, 2002, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2003	\$27,826	\$1,995	\$29,821
2004	26,392	654	27,046
Total	<u>\$54,218</u>	<u>\$2,649</u>	<u>\$56,867</u>

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Outstanding 06/30/01	Additions	Deletions	Outstanding 06/30/02
Compensated Absences	\$882,313	\$461,217	\$356,826	\$986,704
2001 School Facilities Current Interest Serial Bonds - 4.85%	4,380,000	0	95,000	4,285,000
2001 School Facilities Current Interest Term Bonds - 5%	2,850,000	0	0	2,850,000
2001 School Facilities Capital Appreciation Bonds	215,888	26,456	0	242,344
Pension Obligation	98,219	85,426	98,219	85,426
Total Long-Term Obligations	<u>\$8,426,420</u>	<u>\$573,099</u>	<u>\$550,045</u>	<u>\$8,449,474</u>

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

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 liability for the bonds is recorded in the General Long-Term Obligations Account Group with annual principal and interest requirements retired from the debt service 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:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
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:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
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 2002, \$26,456 was accreted for total bond liability of \$242,344.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest payments to retire general obligation debt outstanding at June 30, 2002 are as follows:

Year	Principal	Interest	Total
2003	230,000	320,482	550,482
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	1,490,000	1,296,662	2,786,662
2013-2017	1,750,000	1,021,002	2,771,002
2018-2022	2,205,000	547,075	2,752,075
2023-2024	1,045,000	52,875	1,097,875
Total	\$7,745,000	\$4,432,811	\$12,177,811

The School District's overall legal debt margin was \$8,752,100, with an unvoted debt margin of \$174,500 at June 30, 2002.

NOTE 17 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002, consist of the following individual due to/due from other funds:

	Due from Other Funds	Due to Other Funds
General Fund	\$6,743	\$802
Special Revenue Funds:		
Public School Support	0	69
Miscellaneous Federal Grants	0	6,743
Total Special Revenue Funds	0	6,812
Food Service Enterprise Fund	871	0
Total All Funds	\$7,614	\$7,614

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 18 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the East Muskingum Local School District as of and for the fiscal year ended June 30, 2002.

	Food Service	Uniform School Supplies	Total
Operating Revenues	\$489,009	\$22,499	\$511,508
Depreciation Expense	4,616	0	4,616
Operating Income (Loss)	(230,091)	2,043	(228,048)
Donated Commodities	60,271	0	60,271
Operating Grants	156,429	0	156,429
Investment Income	1,501	0	1,501
Net Income (Loss)	(11,890)	2,043	(9,847)
Net Working Capital	86,510	25,785	112,295
Total Assets	148,231	26,705	174,936
Long-Term Liabilities	42,637	0	42,637
Total Equity	75,654	25,786	101,440
Encumbrances	1,949	3,111	5,060

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

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 2002, the School District paid \$52,000 for services with TRECA.

Mid-East Ohio Vocational School District - The Mid-East Ohio Vocational School District 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 Ohio Vocational School, Rick White, Treasurer, at 400 Richards Road, Zanesville, Ohio 43701. The School District made no payments to Mid-East Ohio Vocational School District during fiscal year 2002.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 voting privileges. School districts may elect to be associate members, which entitles them to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2002, the Board consisted of fourteen members. In fiscal year 2002, East Muskingum Local School District obtained active membership privileges and paid a membership fee of \$547.75.

NOTE 20 - INSURANCE PURCHASING POOL

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. For fiscal year 2002, the School District's enrollment fee was \$3,575.

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 21 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 1, 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 monies remaining in the budget reserve set-aside. During fiscal year 2002, the Board enacted a resolution to spend the monies associated with the workers' compensation for allowable costs. As of June 30, 2002, the School District has not expended those monies. This unspent portion of worker's compensation refunds continues to be set-aside.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 21 - SET-ASIDE CALCULATIONS (Continued)

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Instructional Materials Reserve
	<u> </u>	<u> </u>	<u> </u>
Set-aside Reserve Balance as of June 30, 2001	\$63,285	\$0	\$0
Current Year Set-aside Requirement	0	267,475	267,475
Qualifying Disbursements	<u>0</u>	<u>406,843</u>	<u>313,572</u>
Current Year Requirement less Qualifying Disbursements	0	(139,368)	(46,097)
Beginning Carryover Offsets/Excess Disbursements	0	2,380,091	41,590
Current Year Offsets/Excess Disbursements	<u>0</u>	<u>1,604,368</u>	<u>46,097</u>
Total Available as Offsets/Excess Disbursements	0	3,984,459	87,687
Current Year Application of Offsets/Excess Disbursements	<u>0</u>	<u>0</u>	<u>0</u>
Offsets/Excess Disbursements to be Carried Forward to Future Years	<u>0</u>	<u>3,984,459</u>	<u>87,687</u>
Set-aside Reserve Balance as of June 30, 2002	<u><u>\$63,285</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the textbook set-asides. The excess of disbursements over current year set-aside requirements for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years. The School District had sufficient offsets to apply to the current fiscal year capital improvements set-aside requirement where no set-aside was required and additional offsets will be carried to future years.

NOTE 22 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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, 2002.

B. Litigation

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 23 - SUBSEQUENT EVENT

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 plan 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 on its future State funding and its financial operations.

EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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 Distribution Program	N/A	10.550	\$0	\$57,115	\$0	\$57,597
School Breakfast Program	048835-05PU-2001	10.553	1,411		1,411	
School Breakfast Program	048835-05PU-2002	10.553	10,822		10,822	
Total School Breakfast Program			12,233		12,233	
National School Lunch Program	048835-LLP4-2001	10.555	16,087		16,087	
National School Lunch Program	048835-LLP4-2002	10.555	120,843		120,843	
Total National School Lunch Program			136,930		136,930	
Total U.S. Department of Agriculture - Child Nutrition Cluster			149,163	57,115	149,163	57,597
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	310,086		292,863	
	048835-C1S1-2001-C	84.010	9,673		9,673	
	048835-C1S1-2001	84.010	42,778		82,670	
Total Title I			362,537		385,206	
Special Education Grants to States (Title VI-B)	048835-6BSF-2001P	84.027	11,594		22,044	
	048835-6BSF-2002P	84.027	128,939		103,423	
Total Special Education Grants to States			140,533		125,467	
Title IV, Drug Free Grant	048835-DRS1-2002	84.186	8,715		1,995	
	048835-DRS1-2001	84.186			12	
Total Drug Free Grant			8,715		2,007	
Christa McAuliffe Grant	048835-CJS1-2001	84.215			982	
Goals 2000 - State and Local Education Systematic Improvement Grants	048835-G2S2-1999	84.276			5,088	
Eisenhower Professional Development State Grants	048835-MSS1-2001	84.281	1,052		5,867	
	048835-MSS1-2002	84.281	12,220		6,250	
Total Eisenhower Professional Development Grants			13,272		12,117	
Innovative Education Program Strategies Grant (Title VI)	048835-C2S1-2002	84.298	9,755		9,047	
	048835-C2S1-2001	84.298			15	
	048835-C2S1-2000	84.298			1,855	
Total Innovative Education Program Strategies Grants			9,755		10,917	
Class Size Reduction Grant (Title VI-R)	048835-CRS1-2002	84.340	28,007		27,740	
	048835-CRS1-2001	84.340	20,871		14,240	
Total Class Size Reduction Grants			48,878		41,980	
Total U.S. Department of Education			583,690		583,764	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	25,993		25,993	
Total U.S. Department of Health and Human Services			25,993		25,993	
Total Federal Awards Receipts and Expenditures			\$758,846	\$57,115	\$758,920	\$57,597

The accompanying 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 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the East Muskingum Local School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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**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 accompanying general purpose financial statements of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 27, 2003. 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 general purpose 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*.

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 general purpose 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 management of the School District in a separate letter dated January 27, 2003.

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

January 27, 2003



**Auditor of State
Betty Montgomery**

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**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**

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, 2002. 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, 2002.

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.

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. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 27, 2003.

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

January 27, 2003

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

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):	CFDA # 10.550, 10.553, and 10.555 - Child Nutrition Cluster
<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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

No findings to report.

3. FINDINGS FOR FEDERAL AWARDS

No findings to report.



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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
FEBRUARY 27, 2003**