



Dave Yost • Auditor of State

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Fund Net Assets - Proprietary Fund.....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	19
Statement of Cash Flows - Proprietary Fund.....	20
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	21
Notes to the Basic Financial Statements	23
Federal Awards Receipts and Expenditures Schedule.....	53
Notes to the Federal Awards Receipts and Expenditures Schedule	54
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.	57
Schedule of Findings - OMB Circular A-133 § .505	59

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 24, 2011

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

The discussion and analysis of the East Muskingum Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- In total, net assets of governmental activities decreased \$427,250.
- General revenues accounted for \$15,646,523 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,846,253 or 20 percent of total revenues of \$19,492,776.
- Capital assets decreased \$1,035,394 primarily due to current year depreciation.
- The School District had \$19,920,026 in expenses related to governmental activities; only \$3,846,253 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$15,646,523 were not adequate to provide for these programs.

Using this Basic Financial Statements Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the School District, the General Fund and the Permanent Improvement Capital Projects Fund are the only major funds for fiscal year 2010.

Reporting the School District as a Whole

Statement of New Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2009-2010 fiscal year?"

The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

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

East Muskingum Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009.

Table 1 - Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$15,299,499	\$14,500,475	\$799,024
Capital Assets	27,669,121	28,704,515	(1,035,394)
Total Assets	<u>42,968,620</u>	<u>43,204,990</u>	<u>(236,370)</u>
Liabilities			
Long-Term Liabilities	7,773,135	8,090,463	(317,328)
Other Liabilities	8,232,517	7,724,309	508,208
Total Liabilities	<u>16,005,652</u>	<u>15,814,772</u>	<u>190,880</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	21,815,137	22,753,520	(938,383)
Restricted	2,594,450	2,309,125	285,325
Unrestricted	2,553,381	2,327,573	225,808
Total Net Assets	<u>\$26,962,968</u>	<u>\$27,390,218</u>	<u>(\$427,250)</u>

Total assets decreased \$236,370. Capital assets decreased by \$1,035,394 due to current year depreciation exceeding capital asset additions in the current year. This decrease is offset by an increase in current and other assets in the amount of \$799,024. The increase in current and other assets is primarily due an increase in cash and cash equivalents.

Total liabilities increased \$190,880. Long-term liabilities decreased primarily due to scheduled debt service payments. The decrease in long-term liabilities is offset by an increase in other liabilities in the amount of \$508,208. The increase is primarily due to an increase in deferred revenue related to property taxes receivable due to changes in the amount available for advance on the August tax settlement. The increase is offset slightly by decreases in accounts and claims payable.

Net assets decreased \$427,250. Invested in Capital Assets, Net of Related Debt decreased \$938,383. This decrease can be attributed primarily to current year depreciation expense.

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010 and comparisons to fiscal year 2009.

Table 2
Changes in Net Assets

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues			
Charges for Services	\$1,959,950	\$1,927,067	\$32,883
Operating Grants, Contributions and Interest	1,886,303	2,141,723	(255,420)
Capital Grants and Contributions	0	22,915	(22,915)
	<u>3,846,253</u>	<u>4,091,705</u>	<u>(245,452)</u>
General Revenue			
Property Taxes	5,344,881	5,975,745	(630,864)
Grants and Entitlements	10,076,084	9,414,390	661,694
Investment Earnings	128,606	127,193	1,413
Miscellaneous Revenues	96,952	152,263	(55,311)
	<u>15,646,523</u>	<u>15,669,591</u>	<u>(23,068)</u>
Total Revenues	<u>19,492,776</u>	<u>19,761,296</u>	<u>(268,520)</u>
Program Expenses			
Instruction			
Regular	7,973,472	8,676,196	(702,724)
Special	2,862,582	1,356,197	1,506,385
Vocational	264,678	253,069	11,609
Student Intervention Services	612,628	13,446	599,182
Support Services			
Pupils	412,617	405,340	7,277
Instructional Staff	455,601	1,337,851	(882,250)
Board of Education	54,749	56,655	(1,906)
Administration	1,866,293	1,834,120	32,173
Fiscal	418,773	391,201	27,572
Operation and Maintenance of Plant	1,724,357	1,831,528	(107,171)
Pupil Transportation	1,247,501	1,246,238	1,263
Central	178,055	174,146	3,909
Food Service Operations	1,106,118	1,041,223	64,895
Extracurricular Activities	446,752	454,995	(8,243)
Interest and Fiscal Charges	295,850	341,834	(45,984)
Total Expenses	<u>19,920,026</u>	<u>19,414,039</u>	<u>505,987</u>
<i>Change in Net Assets</i>	<u>(427,250)</u>	<u>347,257</u>	<u>(774,507)</u>
Net Assets Beginning of Year	<u>27,390,218</u>	<u>27,042,961</u>	<u>347,257</u>
Net Assets End of Year	<u>\$26,962,968</u>	<u>\$27,390,218</u>	<u>(\$427,250)</u>

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

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

As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 27 percent of revenues for governmental activities for East Muskingum Local School District in fiscal year 2010. While the School District operates on a very tight budget, revenue sources are not projected to keep pace with expenses.

During fiscal year 2010, total revenues decreased \$268,520. The decrease was due primarily to decreased revenue from Operating and Capital Grants, as well as a large decrease in the amount available as advance on the August property tax settlement. The decreases were offset by increased grants and entitlements. The decrease in revenue is accompanied by an increase in expenses in the amount of \$505,987, due primarily to increases in overall operating costs.

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

Table 3

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction:				
Regular	\$7,973,472	\$6,561,002	\$8,676,196	\$7,290,739
Special	2,862,582	2,172,363	1,356,197	248,690
Vocational	264,678	202,220	253,069	191,065
Student Intervention Services	612,628	612,628	13,446	13,446
Support Services:				
Pupils	412,617	412,617	405,340	401,435
Instructional Staff	455,601	127,672	1,337,851	1,079,941
Board of Education	54,749	54,749	56,655	56,655
Administration	1,866,293	1,833,733	1,834,120	1,808,246
Fiscal	418,773	361,812	391,201	388,926
Operation and Maintenance of Plant	1,724,357	1,649,463	1,831,528	1,738,369
Pupil Transportation	1,247,501	1,206,944	1,246,238	1,212,806
Central	178,055	164,337	174,146	149,672
Food Service Operations	1,106,118	160,481	1,041,223	130,350
Extracurricular Activities	446,752	257,902	454,995	270,160
Interest	295,850	295,850	341,834	341,834
Total Expenses	<u>\$19,920,026</u>	<u>\$16,073,773</u>	<u>\$19,414,039</u>	<u>\$15,322,334</u>

East Muskingum Local School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010 Unaudited

As shown from the table above, the net cost of services has remained consistent at approximately 80 percent of the total cost of services. Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 68 percent is for regular instruction, 24 percent for special instruction, two percent for vocational and six percent for intervention instructions.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 77 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$19,745,195, expenditures of \$19,708,494, and a combined net increase in fund balances, including other financing sources (uses), of \$111,741. The largest change was in the Permanent Improvement Fund, with an increase in fund balance of \$879,243 due to the final closeout of the School Facilities project.

Budgeting Highlights

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

For the General Fund, budget basis revenues were \$870,115 below final estimates of \$16,775,232. Of this difference, most was due to taxes and intergovernmental revenues coming in below estimates.

The School District's ending General Fund budgetary basis balance was \$247,498 below the final estimate.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$27,669,121 invested in land, land improvements, construction in progress, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 8 for more detailed information of the School District's capital assets.

Debt

At June 30, 2010, the School District had \$5,561,445 in general obligation bonds outstanding, including \$156,094 in accumulated accretion, with \$287,871 due within one year, and \$385,128 in Energy Conservation Notes, with \$27,825 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024.

The Energy Conservation Notes were issued for geothermal heating and cooling improvements to Perry Elementary. The notes will be fully repaid by fiscal year 2021. During fiscal year 2010, the School District made principal payments in the amount of \$112,649 and accreted interest payments in the amount of \$192,351 on the general obligation bonds and \$26,626 on the Energy Conservation Notes. See Note 15 for more detail on the School District's debt.

East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Economic Factors

Based on the most recent Board-adopted five year forecast, the School District is projecting deficit spending in fiscal year 2012 as well as deficit cash balances beginning in fiscal year 2015. The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

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

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East Muskingum Local School District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,160,911
Cash and Cash Equivalents in Segregated Accounts	45,544
Accrued Interest Receivable	7,082
Intergovernmental Receivable	164,198
Payment in Lieu of Taxes Receivable	58,946
Inventory Held for Resale	5,515
Materials and Supplies Inventory	139,912
Prepaid Items	5,371
Property Taxes Receivable	6,712,020
Nondepreciable Capital Assets	165,309
Depreciable Capital Assets, Net	<u>27,503,812</u>
Total Assets	<u>42,968,620</u>
Liabilities	
Accrued Wages and Benefits Payable	1,495,310
Accounts Payable	142,812
Contracts Payable	5,913
Intergovernmental Payable	450,088
Matured Compensated Absences Payable	49,120
Matured Longevity Benefits Payable	95,792
Accrued Interest Payable	28,073
Claims Payable	243,000
Deferred Revenue	5,670,496
Vacation Benefits Payable	51,913
Long-Term Liabilities:	
Due Within One Year	500,560
Due In More Than One Year	<u>7,272,575</u>
Total Liabilities	<u>16,005,652</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,815,137
Restricted for:	
Capital Projects	1,604,785
Debt Service	363,389
Unclaimed Monies	3,503
State Programs	17,843
Federal Programs	229,433
Food Service	213,469
Classroom Facilities Maintenance	141,659
Other Purposes	20,369
Unrestricted (Deficit)	<u>2,553,381</u>
Total Net Assets	<u>\$26,962,968</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net Revenue (Expense) and Change in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$7,973,472	\$1,267,028	\$145,442	(\$6,561,002)
Special	2,862,582	0	690,219	(2,172,363)
Vocational	264,678	0	62,458	(202,220)
Student Intervention Services	612,628	0	0	(612,628)
Support Services:				
Pupils	412,617	0	0	(412,617)
Instructional Staff	455,601	0	327,929	(127,672)
Board of Education	54,749	0	0	(54,749)
Administration	1,866,293	0	32,560	(1,833,733)
Fiscal	418,773	0	56,961	(361,812)
Operation and Maintenance of Plant	1,724,357	0	74,894	(1,649,463)
Pupil Transportation	1,247,501	0	40,557	(1,206,944)
Central	178,055	0	13,718	(164,337)
Food Service Operations	1,106,118	504,072	441,565	(160,481)
Extracurricular Activities	446,752	188,850	0	(257,902)
Interest	295,850	0	0	(295,850)
Total Governmental Activities	\$19,920,026	\$1,959,950	\$1,886,303	(16,073,773)

General Revenues

Property Taxes Levied for:

General Purposes	4,328,824
Capital Outlay	427,713
Debt Service	509,393
Capital Maintenance	78,951
Grants and Entitlements not Restricted to Specific Programs	10,076,084
Investment Earnings	128,606
Gifts and Donations	3,544
Miscellaneous	93,408
Total General Revenues	15,646,523

Change in Net Assets (427,250)

Net Assets Beginning of Year 27,390,218

Net Assets End of Year \$26,962,968

See accompanying notes to the basic financial statements

East Muskingum Local School District

Balance Sheet

Governmental Funds

June 30, 2010

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,673,654	\$1,530,309	\$1,041,509	\$6,245,472
Cash and Cash Equivalents in Segregated Accounts	0	0	1,903	1,903
Intergovernmental Receivable	0	0	164,198	164,198
Accrued Interest Receivable	7,082	0	0	7,082
Inventory Held for Resale	0	0	5,515	5,515
Materials and Supplies Inventory	138,012	0	1,900	139,912
Prepaid Items	5,195	0	176	5,371
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	3,503	0	0	3,503
Property Taxes Receivable	5,497,240	551,441	663,339	6,712,020
Payment in Lieu of Taxes Receivable	46,903	5,937	6,106	58,946
Total Assets	\$9,371,589	\$2,087,687	\$1,884,646	\$13,343,922
Liabilities				
Matured Compensated Absences Payable	\$49,120	\$0	\$0	\$49,120
Matured Longevity Benefits Payable	95,792	0	0	95,792
Accounts Payable	74,785	15,237	52,790	142,812
Accrued Wages and Benefits Payable	1,376,904	0	118,406	1,495,310
Contracts Payable	0	5,913	0	5,913
Intergovernmental Payable	409,168	0	40,920	450,088
Deferred Revenue	5,323,979	535,637	715,196	6,574,812
Total Liabilities	7,329,748	556,787	927,312	8,813,847
Fund Balances				
Reserved for Encumbrances	242,336	173,997	40,795	457,128
Reserved for Unclaimed Monies	3,503	0	0	3,503
Reserved for Property Taxes	227,246	21,741	29,425	278,412
Unreserved:				
Undesignated, Reported in:				
General Fund	1,568,756	0	0	1,568,756
Special Revenue Funds	0	0	585,614	585,614
Debt Service Funds	0	0	301,500	301,500
Capital Projects Funds	0	1,335,162	0	1,335,162
Total Fund Balances	2,041,841	1,530,900	957,334	4,530,075
Total Liabilities and Fund Balances	\$9,371,589	\$2,087,687	\$1,884,646	\$13,343,922

See accompanying notes to the basic financial statements

East Muskingum Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2010*

Total Governmental Fund Balances \$4,530,075

*Amounts reported for governmental activities in the
statement of net assets are different because*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 27,669,121

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds:

Grants	75,276	
Property Taxes	821,958	
Interest	7,082	
Total		904,316

An internal service fund is used by management to charge the costs of insurance to individual
funds. The assets and liabilities of the internal service fund are included in governmental
activities on the statement of net assets. 1,712,577

In the statement of activities, interest is accrued on outstanding general
obligation bonds, whereas in governmental funds, an interest expenditure
is reported when due. (28,073)

Some long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds:

General Obligation Serial/Term Bonds	5,305,000	
General Obligation Capital Appreciation Bonds	100,351	
Capital Appreciation Bond Interest Accretion	156,094	
Energy Conservation Loan	385,128	
Vacation Benefits Payable	51,913	
Compensated Absences	596,085	
Longevity Benefits Payable	1,166,972	
Capital Leases	63,505	
Total		(7,825,048)

Net Assets of Governmental Activities \$26,962,968

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$4,345,313	\$429,216	\$590,655	\$5,365,184
Payment in Lieu of Taxes	58,354	5,937	6,106	70,397
Intergovernmental	9,700,272	97,992	2,324,012	12,122,276
Interest	129,176	0	1,260	130,436
Tuition and Fees	1,258,061	0	0	1,258,061
Extracurricular Activities	0	0	188,850	188,850
Rent	8,967	0	0	8,967
Charges for Services	0	0	504,072	504,072
Contributions and Donations	3,544	0	0	3,544
Miscellaneous	23,757	1,607	68,044	93,408
Total Revenues	15,527,444	534,752	3,682,999	19,745,195
Expenditures				
Current:				
Instruction:				
Regular	7,578,364	127,246	126,619	7,832,229
Special	2,077,940	0	672,655	2,750,595
Vocational	250,445	0	0	250,445
Student Intervention Services	589,436	0	23,192	612,628
Support Services:				
Pupils	399,544	0	0	399,544
Instructional Staff	65,542	0	345,661	411,203
Board of Education	31,005	0	0	31,005
Administration	1,749,671	0	34,390	1,784,061
Fiscal	376,795	12,416	15,016	404,227
Operation and Maintenance of Plant	970,145	103,953	611,777	1,685,875
Pupil Transportation	1,126,666	200,000	0	1,326,666
Central	157,226	0	16,002	173,228
Food Service Operations	0	0	935,569	935,569
Extracurricular Activities	211,994	0	260,706	472,700
Debt Service:				
Principal Retirement	27,508	0	139,275	166,783
Capital Appreciation Bonds Interest	0	0	192,351	192,351
Interest and Fiscal Charges	4,901	0	274,484	279,385
Total Expenditures	15,617,182	443,615	3,647,697	19,708,494
Excess of Revenues Over (Under) Expenditures	(89,738)	91,137	35,302	36,701
Other Financing Sources (Use)				
Transfers In	0	788,106	64,306	852,412
Sale of Capital Assets	5,268	0	0	5,268
Inception of Capital Lease	69,772	0	0	69,772
Transfers Out	0	0	(852,412)	(852,412)
Total Other Financing Sources (Uses)	75,040	788,106	(788,106)	75,040
Net Change in Fund Balances	(14,698)	879,243	(752,804)	111,741
Fund Balances Beginning of Year	2,056,539	651,657	1,710,138	4,418,334
Fund Balances End of Year	<u>\$2,041,841</u>	<u>\$1,530,900</u>	<u>\$957,334</u>	<u>\$4,530,075</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds		\$111,741
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Capital Asset Additions	408,814	
Current Year Depreciation	(1,427,507)	
Total	(1,018,693)	(1,018,693)
Capital Assets removed from the capital asset account on the statement of net assets results in a loss on disposal of capital assets on the statement of activities.		(16,701)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	(20,303)	
Accrued Interest Receivable	(1,830)	
Payment in Lieu of Taxes	(70,397)	
Intergovernmental	(159,889)	
Total	(252,419)	(252,419)
Repayment of principal and accretion is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Capital Appreciation Bonds	112,649	
Capital Appreciation Bond Accretion	192,351	
Capital Leases	27,508	
Energy Conservation Notes	26,626	
Total	359,134	359,134
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities, and the accretion of interest of capital appreciation bonds is reported in the statement of activities.		
Accrued Interest	664	
Accretion of Interest	(17,129)	
Total	(16,465)	(16,465)
Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long-term liabilities on the statement of activities.		(69,772)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	1,876	
Compensated Absences	23,970	
Longevity Benefits Payable	21,125	
Total	46,971	46,971
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change in net assets of the internal service fund is reported with governmental activities.		428,954
Change in Net Assets of Governmental Activities		(\$427,250)

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$4,542,600	\$5,009,849	\$4,759,656	(\$250,193)
Payment in Lieu of Taxes	0	40,000	58,354	18,354
Intergovernmental	9,236,620	10,388,520	9,719,160	(669,360)
Interest	151,420	75,000	69,815	(5,185)
Tuition and Fees	1,211,360	1,221,480	1,258,061	36,581
Rentals	0	9,827	8,967	(860)
Contributions and Donations	0	3,544	3,544	0
Miscellaneous	0	27,012	27,560	548
Total Revenues	15,142,000	16,775,232	15,905,117	(870,115)
Expenditures				
Current:				
Instruction:				
Regular	7,659,201	7,659,200	7,745,423	(86,223)
Special	982,487	982,487	2,080,114	(1,097,627)
Vocational	254,411	254,411	261,850	(7,439)
Student Intervention Services	591,641	591,641	589,436	2,205
Support Services:				
Pupils	394,179	394,179	399,630	(5,451)
Instructional Staff	1,017,616	1,017,616	43,169	974,447
Board of Education	36,770	36,770	31,183	5,587
Administration	1,788,542	1,788,542	1,743,407	45,135
Fiscal	367,691	367,691	377,087	(9,396)
Operation and Maintenance of Plant	1,736,093	1,736,093	1,005,416	730,677
Pupil Transportation	1,225,291	1,225,291	1,150,674	74,617
Central	152,133	152,133	161,215	(9,082)
Extracurricular Activities	218,217	218,217	213,050	5,167
Total Expenditures	16,424,272	16,424,271	15,801,654	622,617
Excess of Revenues Over (Under) Expenditures	(1,282,272)	350,961	103,463	(247,498)
Other Financing Source				
Sale of Capital Assets	0	5,268	5,268	0
Net Change in Fund Balance	(1,282,272)	356,229	108,731	(247,498)
Fund Balance Beginning of Year	3,004,157	3,004,157	3,004,157	0
Prior Year Encumbrances Appropriated	212,004	212,004	212,004	0
Fund Balance End of Year	\$1,933,889	\$3,572,390	\$3,324,892	(\$247,498)

See accompanying notes to the basic financial statements

East Muskingum Local School District

Statement of Fund Net Assets

Proprietary Fund

June 30, 2010

	<u>Governmental Activity Internal Service Fund</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,911,936
Cash and Cash Equivalents in Segregated Accounts	<u>43,641</u>
Total Assets	<u>1,955,577</u>
Current Liabilities	
Claims Payable	<u>243,000</u>
Net Assets	
Unrestricted	<u><u>\$1,712,577</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2010

	Governmental Activity
	Internal Service Fund
Operating Revenues	
Charges for Services	\$2,506,355
Operating Expenses	
Purchased Services	388,434
Claims	1,688,967
Total Operating Expenses	2,077,401
Change in Net Assets	428,954
Net Assets Beginning of Year	1,283,623
Net Assets End of Year	\$1,712,577

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2010

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$2,506,355
Cash Payments to Suppliers for Services	(388,434)
Cash Payments for Claims	(1,945,967)
	171,954
<i>Net Cash Provided by Operating Activities</i>	171,954
<i>Net Increase in Cash and Cash Equivalents</i>	171,954
<i>Cash and Cash Equivalents Beginning of Year</i>	1,783,623
<i>Cash and Cash Equivalents End of Year</i>	\$1,955,577
Reconciliation of Operating Income to	
Net Cash Provided by Operating Activities:	
Operating Income	\$428,954
Adjustments to Reconcile	
Changes in Liabilities:	
Decrease in Claims Payable	(257,000)
	\$171,954
<i>Net Cash Provided by Operating Activities</i>	\$171,954

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2010

Assets

Equity in Pooled Cash and Cash Equivalents \$40,287

Liabilities

Due to Students \$40,287

See accompanying notes to the basic financial statements

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East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1958. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 97 classified employees and 146 certificated full-time teaching personnel who provide services to 2,090 students and other community members. The School District currently operates six instructional buildings, two administrative buildings, and four garage/storage buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has one component unit, the East Muskingum Academy.

Discretely Presented Component Unit. The School District's Component Unit, East Muskingum Academy (EMA), is legally separate from the School District.

East Muskingum Academy. The East Muskingum Academy (EMA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314, specifically Section 3314.03. EMA's mission, under a contractual agreement with the School District (EMA's sponsor), is to enhance and facilitate student learning by combining a site-based educational setting with state-of-the-art curriculum and instruction with access to local school resources that complement that instruction and prepare students to become lifelong learners and productive citizens. The students may include, but will not be limited to, home schoolers; children with special physical and mental needs; students removed from the regular classroom for discipline concerns; students who need an alternative to the traditional classroom for various reasons, including religious reasons; transient students; and students with the East Muskingum Local School District, sponsor School District, that desire a specific course not currently offered but is available through online instruction.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

At June 30, 2010, the Board of Directors consisted of five members appointed from the public by the School District who represented the Muskingum County community: two are public officials while the remaining three are community leaders. The School District can suspend the EMA's operations for any of the following reasons: 1) The EMA's failure to meet student performance requirements stated in its contract with the Sponsor; 2) The EMA's failure to meet generally accepted standards of fiscal management; 3) The EMA's violation of any provisions of the contract with the Sponsor or applicable state or federal law; or 4) Other good cause. The EMA is a component unit of the Sponsor, as it would be misleading to exclude the EMA. Separately issued financial statements can be obtained from the East Muskingum Academy, 13505 John Glenn School Road, New Concord, Ohio 43762. The activities of the EMA are currently suspended. No financial activity occurred in fiscal year 2010 (See Note 22 for additional information).

The School District participates in four organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Mid-East Career and Technology Centers, the Metropolitan Educational Council (MEC), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, does not have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the

East Muskingum Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

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

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

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

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

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

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

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

East Muskingum Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District's agency fund accounts for student managed activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

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

East Muskingum Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

The School District has separate bank accounts for dental plan self-insurance monies and athletic monies. The dental plan self-insurance account includes money that is distributed solely for dental claims. The athletic account monies are kept separate from the School District treasury. These accounts are presented on the financial statements as "cash and cash equivalents in segregated accounts".

During fiscal year 2010, investments were limited to money market mutual funds, negotiable certificates of deposits, and federal agency securities. Investments in negotiable certificates of deposits and federal agency securities are reported at fair value based on quoted market prices. Money market mutual funds are reported at current value.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 2010 amounted to \$129,176, which includes \$64,390 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

All of the School District's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year.) Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10-15 years

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents for unclaimed monies.

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and longevity benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and general obligation bonds are recognized as a liability on the governmental fund financial statements when due.

L. Internal Activity

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

O. Operating Revenues and Expenses

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

P. Extraordinary and Special Items

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Q. Estimates

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

R. Budgetary Data

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

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

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

Note 3 – Changes in Accounting Principles

For 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any material change to the School District's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's financial statements.

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Adjustments to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budget basis.
4. Inception of Capital Lease is a non-cash transaction which is reported on the GAAP operating statement and not on the budgetary statements.
5. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

Net Change in Fund Balance	
GAAP Basis	(\$14,698)
Net Adjustment for Revenue Accruals	327,235
Net Adjustment for Expenditure Accruals	117,355
Fair Value Adjustment for Investments	50,438
Inception of Capital Lease	(69,772)
Adjustment for Encumbrances	(301,827)
Budget Basis	<u>\$108,731</u>

Note 5 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$5,004,001 of the School District's bank balance of \$5,726,597 was exposed to custodial credit risk because it was uninsured and collateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2010, the School District had the following investments: money market mutual funds, negotiable certificates of deposit, Federal National Mortgage Association Notes, Federal National Mortgage Corporation Notes, and Federal Home Loan Bank Bonds.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Mutual Funds	\$508,425	N/A **	19.77%	N/A	N/A
Negotiable Certificate of Deposit	99,222	10/1/2010	3.86%	N/A	N/A
Negotiable Certificate of Deposit	99,031	1/28/2011	3.85%	N/A	N/A
Negotiable Certificate of Deposit	99,926	4/29/2011	3.89%	N/A	N/A
Negotiable Certificate of Deposit	100,993	7/29/2011	3.93%	N/A	N/A
Negotiable Certificate of Deposit	102,729	5/15/2014	3.99%	N/A	N/A
Negotiable Certificate of Deposit	101,623	10/30/2014	3.95%	N/A	N/A
Negotiable Certificate of Deposit	101,220	10/30/2014	3.93%	N/A	N/A
Negotiable Certificate of Deposit	100,364	11/4/2014	3.90%	N/A	N/A
Federal National Mortgage Association Note	301,407	12/30/2014	11.72%	AAA	S&P
Federal National Mortgage Corporation Note	454,972	4/15/2015	17.69%	AAA	S&P
Federal Home Loan Bank Bond	502,030	5/26/2015	19.52%	AAA	S&P
Totals	<u>\$2,571,942</u>		<u>100.00%</u>		

** Not available to the School District at June 30, 2010.

Interest Rate Risk. The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk. The credit ratings for the School District's securities are listed above. Ohio law requires that the money market mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after October 1, 2009, and are collected in 2010 with real property taxes. Public utility real property is assessed at twenty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies.

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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2010, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations.

The amount available as an advance at June 30, 2010, was \$278,512. \$227,246 was available in the General Fund, \$4,081 in the Classroom Facilities Maintenance Special Revenue Fund, \$25,344 in the Debt Service Fund, and \$21,741 in the Permanent Improvement Capital Projects Fund. Due to the timing of billings, the amount available as an advance decreased from prior year amounts. The amount available as an advance at June 30, 2009, was \$783,792. \$641,589 was available in the General Fund, \$11,420 in the Classroom Facilities Maintenance Special Revenue Fund, \$67,505 in the Debt Service Fund, and \$63,278 in the Permanent Improvement Capital Projects Fund.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$220,391,470	90.75%	\$224,114,490	92.14%
Public Utility Personal	18,417,960	7.58%	18,728,510	7.70%
General Business Personal	4,046,000	1.67%	384,670	0.16%
Total	\$242,855,430	100.00%	\$243,227,670	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$38.56		 \$38.56	

Note 7 - Receivables

Receivables at June 30, 2010, consisted of property taxes, intergovernmental grants and payment in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$821,958 may not be collected in one year. All other receivables are expected to be received within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
<u>Governmental Activities</u>	
Federal Lunch Subsidy	\$57,702
Title I	74,926
Title II-A	29,067
Title II-D	2,503
Total	\$164,198

Payment in Lieu of Taxes

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

Note 8 - Capital Assets

Capital assets activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Nondepreciable Capital Assets				
Land	\$144,115	\$0	\$0	\$144,115
Land Improvements	6,850	0	0	6,850
Construction in Progress	0	14,344	0	14,344
Total Non-Depreciable Capital Assets	<u>150,965</u>	<u>14,344</u>	<u>0</u>	<u>165,309</u>
Depreciable Capital Assets				
Buildings and Improvements	41,104,166	37,655	0	41,141,821
Furniture, Fixtures, and Equipment	1,538,547	131,992	(162,628)	1,507,911
Vehicles	2,028,295	224,823	(220,491)	2,032,627
Total Depreciable Capital Assets	<u>44,671,008</u>	<u>394,470</u>	<u>(383,119)</u>	<u>44,682,359</u>
Less Accumulated Depreciation				
Buildings and Improvements	(13,770,703)	(1,253,705)	0	(15,024,408)
Furniture, Fixtures, and Equipment	(1,025,885)	(90,628)	145,927	(970,586)
Vehicles	(1,320,870)	(83,174)	220,491	(1,183,553)
Total Accumulated Depreciation	<u>(16,117,458)</u>	<u>(1,427,507) *</u>	<u>366,418</u>	<u>(17,178,547)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>28,553,550</u>	<u>(1,033,037)</u>	<u>(16,701)</u>	<u>27,503,812</u>
Governmental Activities Capital Assets, Net	<u>\$28,704,515</u>	<u>(\$1,018,693)</u>	<u>(\$16,701)</u>	<u>\$27,669,121</u>

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$553,088
Special	110,245
Vocational	18,996
Support Services:	
Pupils	18,996
Instructional Staff	50,024
Board of Education	23,744
Administration	161,462
Fiscal	15,146
Operation and Maintenance of Plant	104,328
Pupil Transportation	196,823
Central	4,749
Extracurricular	10,422
Food Service Operations	159,484
Total Depreciation Expense	<u>\$1,427,507</u>

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School District purchased its property, fleet and liability insurance from Argonaut Insurance Company.

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

Building and Contents-replacement cost (\$1,000 deductible)	\$50,807,700
Automobile Liability (\$1,000 deductible)	1,000,000
Auto Medical Payments	5,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Employer's Liability	1,000,000
Educational Legal Liability Limit (\$2,500 deductible)	1,000,000
Aggregate Per Year	3,000,000

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Worker's Compensation

For fiscal year 2010, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The Board pays 80 percent of the premiums for family coverage and 90 percent for single coverage. The premiums are \$1,286 for family coverage and \$491 for single coverage. The premium is paid from the fund that pays the salary of the covered employee. The claims liability of \$243,000 reported in the internal service fund at June 30, 2010, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$2,704,777. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$90,000 annually.

Changes in the fund's claims liability amount in fiscal years 2009 and 2010 were:

	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2009	\$120,000	\$2,315,003	\$1,935,003	\$500,000
2010	500,000	1,688,967	1,945,967	243,000

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Board policy and State laws. Classified employees and administrators who are contracted to work 260 days earn ten to twenty-five days of vacation per year, depending upon length of service. Unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Life and Vision Insurance

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

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

C. Longevity Benefits Payable

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

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$298,940, \$193,496 and \$176,910, respectively; 44.89 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008, were \$1,077,494, \$1,025,447 and \$1,068,638, respectively; 72.57 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$14,221 made by the School District and \$13,839 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, there are four employees who have elected Social Security.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$44,102, \$120,522 and \$124,306 respectively; 44.89 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$17,833, \$15,965 and \$13,157 respectively; 44.89 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

June 30, 2010, 2009, and 2008, were \$73,966, \$79,848 and \$82,203, respectively; 72.57 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 13 – Construction Commitments

As of June 30, 2010, the School District had contractual purchase commitments for a roofing project. The amounts are as follows:

Contractor	Fund	Purchase Commitments	Amounts Paid as of June 30, 2010	Amounts Remaining on Contracts
Davis Architectural Group	Permanent Improvement	\$22,156	\$14,344	\$7,812
Merriam Roofing Co., Inc.	Permanent Improvement	194,844	0	194,844
Total		\$217,000	\$14,344	\$202,656

Note 14 - Capitalized Leases

In prior years, and during fiscal year 2010, the School District has entered into capitalized leases for copying equipment.

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

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$69,772, which is equal to the present value of the minimum lease payments. A corresponding liability was recorded in the government wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$55,818. Principal payments in fiscal year 2010 totaled \$27,508, in the governmental funds.

Future minimum lease payments through fiscal year 2015 are as follows:

Fiscal Year	Principal	Interest
2011	\$11,747	\$6,589
2012	13,147	5,189
2013	14,715	3,621
2014	16,469	1,867
2015	7,427	212
Totals	\$63,505	\$17,478

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Obligations

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

	Outstanding 06/30/09	Additions	Reductions	Outstanding 06/30/10	Due Within One Year
Governmental Activities:					
2001 School Facilities Current Interest Serial Bonds - 4.85%	\$2,455,000	\$0	\$0	\$2,455,000	\$0
2001 School Facilities Current Interest Term Bonds - 5%	2,850,000	0	0	2,850,000	0
2001 School Facilities Capital Appreciation Bonds - 11.9%	213,000	0	112,649	100,351	100,351
Accumulated Accretion	331,316	17,129	192,351	156,094	187,520
Total General Obligation Bonds	<u>5,849,316</u>	<u>17,129</u>	<u>305,000</u>	<u>5,561,445</u>	<u>287,871</u>
2007 House Bill 264 Energy Conservation Notes - 4.5%	411,754	0	26,626	385,128	27,825
Total Long-Term Debt	<u>6,261,070</u>	<u>17,129</u>	<u>331,626</u>	<u>5,946,573</u>	<u>315,696</u>
Capital Leases	21,241	69,772	27,508	63,505	11,747
Compensated Absences Payable	620,055	29,273	53,243	596,085	51,243
Longevity Benefits Payable	<u>1,188,097</u>	<u>82,935</u>	<u>104,060</u>	<u>1,166,972</u>	<u>121,874</u>
Total Long-Term Obligations	<u>\$8,090,463</u>	<u>\$199,109</u>	<u>\$516,437</u>	<u>\$7,773,135</u>	<u>\$500,560</u>

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

School Facilities General Obligation Bonds - On April 19, 2001, the School District issued \$7,443,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new buildings.

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Year	Principal Amount to be Redeemed
2018	\$420,000
2019	440,000
Total	\$860,000

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 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2021	\$485,000
2022	510,000
Total	\$995,000

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

The remaining capital appreciation bonds mature December 1, 2010. At maturity all compounded interest is paid. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$610,000. The fiscal year 2010 accretion amount is \$17,129.

Principal, interest, and accretion payments to retire general obligation debt outstanding at June 30, 2010 are as follows:

Year	Principal	Accretion/ Interest	Total
2011	\$100,351	\$460,604	\$560,955
2012	305,000	249,321	554,321
2013	320,000	235,568	555,568
2014	335,000	220,826	555,826
2015	350,000	205,155	555,155
2016-2020	2,005,000	754,153	2,759,153
2021-2024	1,990,000	205,250	2,195,250
Total	\$5,405,351	\$2,330,877	\$7,736,228

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2010, are as follows:

Year	Principal	Interest	Total
2011	\$27,825	\$17,331	\$45,156
2012	29,077	16,079	45,156
2013	30,385	14,770	45,155
2014	31,753	13,403	45,156
2015	33,181	11,974	45,155
2016-2020	189,696	36,082	225,778
2021	43,211	1,944	45,155
Total	<u>\$385,128</u>	<u>\$111,583</u>	<u>\$496,711</u>

Bond Insurance

On March 24, 2009 Financial Guaranty Insurance Company (FGIC), the bond insurer for the 2001 bonds, was downgraded by Moody's Investor Services from Caa1 to Caa3 and Moody's will withdraw ratings. This downgrade came after Moody's had previously downgraded FGIC from B1 to Caa1 on December 19, 2008; from Baa3 to B1 on June 20, 2008; from A3 to Baa3 on March 31, 2008; and from Aaa to A3 on February 14, 2008.

The downgrade of a bond insurer may not, in and by itself, create an immediate default under the bond indentures or other bond documents or cause any reallocation of rights or responsibilities among parties; however, it will likely have an adverse effect on the value of the bonds as they are traded in the secondary market.

The School District's overall legal debt margin was \$16,717,399, with an unvoted debt margin of \$242,458 at June 30, 2010.

Note 16 – Transfers

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>		<u>Total</u>
	<u>Major Fund</u>		
	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	
Other Governmental Funds	<u>\$788,106</u>	<u>\$64,306</u>	<u>\$852,412</u>

Due to the fully executed Certificate of Completion of the project agreement for the East Muskingum Local School District Classroom Facilities Assistance Program project these transfers were approved. The Classroom Facilities Fund transferred \$788,106 to the Permanent Improvement Fund and \$64,306 to the Classroom Facilities Maintenance Fund.

Note 17 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2010, the School District paid \$66,967 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2010, the School District made no contributions to the Center. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of 166 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate.

The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2010, the School District made a payment of \$838 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Denise Canfield, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, OH 43219.

D. Coalition of Rural and Appalachian Schools (CORAS)

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2010. To obtain financial information write to the Coalition of Rural and Appalachian Schools, Dick Fisher, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 18 - Insurance Purchasing Pools

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

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

B. Ohio School Benefits Cooperative

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

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

Note 19 – Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Litigation

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

Note 20 – Set-Asides

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance June 30, 2009	\$0	\$0
Current Year Set-aside Requirement	361,386	361,386
Excess Qualified Expenditures from Prior Years	(385,866)	0
Current Year Offsets	0	(1,116,745)
Current Year Qualifying Disbursements	(290,805)	0
Total	(\$315,285)	(\$755,359)
Balance Carried Forward to Fiscal Year 2011	(\$315,285)	\$0

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

Note 21 – Subsequent Events

A. School Employees Retirement System

Effective July 1, 2010, the SERS has changed the Ohio Department of Education Foundation Program deductions for traditional public schools from a calendar year basis, six month in arrears, to a fiscal year basis, which will coincide with the participating School Districts' fiscal year. As a result, the Foundation deductions which would have been collected six months in arrears became due June 30, 2010. The School District will have the balance due paid in equal installments over a six year period beginning July, 2010.

B. Federal Grant

The School District has been approved for \$526,436 of Federal Education Jobs Fund Program Dollars as part of Public Law No. 111-226, signed by President Obama on August 10, 2010. This program provides assistance to save or create education jobs. The allocation will be available to fund fiscal year 2011.

C. Advance Refunding

The Board of Education passed a resolution at the November 16, 2010 regular meeting, to authorize the issuance of bonds for the purpose of advance refunding a portion of the bonds issued in April, 2001. The advance refunding bonds were approved in an amount not to exceed \$5,000,000. As of the date of the financial statements, the advance refunding bonds have not yet been issued.

D. Roofing Project

The Board of Education had approved contract for a roofing project. As of June 30, 2010, the project was in the design stage (see Construction Commitment Note 13), and as of the date of the financial statements, the project has been completed.

E. Wage Increase

The Board of Education approved a 1 percent base salary increase for all employees at the August 12 regular meeting to be effective August 16, 2010 and payable beginning September 3, 2010.

F. East Muskingum Academy

Effective June 30, 2008, the East Muskingum Academy was granted a suspension of operations from the Ohio Department of Education. On February 10, 2011 the East Muskingum Local School District Board approved a resolution formally closing the Academy effective July 1, 2010. The Board directed the Academy to transfer any student records to the appropriate school, notify all stakeholders of the decision and dispose of all assets, reimburse the Ohio Department of Education of any remaining funds of the Academy and arrange for a financial audit of the Academy.

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2009/2010	10.555	\$ 52,973	\$ 53,012
Cash Assistance:				
School Breakfast Program	2009/2010	10.553	60,063	60,063
National School Lunch Program	2009/2010	10.555	262,322	262,322
Cash Assistance Subtotal			<u>322,385</u>	<u>322,385</u>
Total Child Nutrition Cluster			<u>375,358</u>	<u>375,397</u>
Total U.S. Department of Agriculture			375,358	375,397
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	2009	84.010	27,804	43,348
	2010		<u>286,675</u>	<u>241,645</u>
Title I Grants to Local Educational Agencies Subtotal			314,479	284,993
ARRA Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	<u>131,784</u>	<u>127,435</u>
Total Title I, Part A Cluster			446,263	412,428
Special Education Cluster (IDEA):				
Special Education Grants to States (IDEA, Part B)	2009	84.027	42,795	53,592
	2010		<u>389,948</u>	<u>372,305</u>
Special Education Grants to States (IDEA, Part B) Subtotal			432,743	425,897
ARRA - Special Education Grants to States (IDEA, Part B), Recovery Act	2010	84.391	<u>213,740</u>	<u>207,560</u>
Total Special Education Cluster (IDEA)			646,483	633,457
Safe and Drug Free Schools and Communities, State Grants	2010	84.186	(16)	
			<u>7,834</u>	<u>5,200</u>
Total Safe and Drug Free Schools and Communities, State Grants			7,818	5,200
Innovative Education Program Strategies Grant	2,009	84.298		28
Education Technology State Grants	2009	84.318	(440)	
	2010		<u>3,361</u>	<u>3,081</u>
Total Education Technology State Grants			2,921	3,081
Improving Teacher Quality State Grants	2009	84.367	5,447	17,381
	2010		<u>120,406</u>	<u>100,596</u>
Total Improving Teacher Quality State Grants			125,853	117,977
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	2010	84.394	<u>580,484</u>	<u>439,421</u>
Total U.S. Department of Education			<u>1,809,822</u>	<u>1,611,592</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,185,180</u>	<u>\$ 1,986,989</u>

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2009 to 2010 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2009 to 2010</u>
Safe and Drug Free Schools and Communities, State Grants	84.186	\$16
Education Technology State Grants	84.318	440



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Dave Yost
Auditor of State

February 24, 2011



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the East Muskingum Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2010. The Summary of Auditor's results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State

February 24, 2011

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

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 significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Part A Cluster - CFDA #84.010 and #84.389 Special Education Cluster - CFDA #84.027 and #84.027 State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act – CFDA #84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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Dave Yost • Auditor of State

EAST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2011**