



Dave Yost • Auditor of State

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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 Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 5, 2015

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East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities decreased \$310,291.
- General revenues accounted for \$16,763,941 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,245,257 or 24 percent of total revenues of \$22,009,198.
- Capital assets decreased \$1,068,695 primarily due to current year depreciation expense which was offset by capital asset acquisitions.
- The School District had \$22,319,489 in expenses related to governmental activities; only \$5,245,257 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) in the amount of \$16,763,941 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 Position* 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 Levy Capital Projects Fund are the only major funds for fiscal year 2014.

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While these documents contain 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 2013-2014 fiscal year?"

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the School District's net position and changes in net position. This change in net position 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 Position 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 10. 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

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

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

East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 1 provides a summary of the School District's net position for 2014 compared to 2013.

Table 1 - Net Position

	Governmental Activities		
	2014	2013	Change
Assets			
Current and Other Assets	\$17,322,502	\$18,069,025	(\$746,523)
Capital Assets	23,362,316	24,431,011	(1,068,695)
Total Assets	<u>40,684,818</u>	<u>42,500,036</u>	<u>(1,815,218)</u>
Liabilities			
Long-Term Liabilities	6,056,585	6,679,369	(622,784)
Other Liabilities	2,799,366	3,151,602	(352,236)
Total Liabilities	<u>8,855,951</u>	<u>9,830,971</u>	<u>(975,020)</u>
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current Year Operations	4,512,294	5,030,016	(517,722)
Payment in Lieu of Taxes not Levied to Finance Current Year Operations	4,434	16,619	(12,185)
Total Deferred Inflows of Resources	<u>4,516,728</u>	<u>5,046,635</u>	<u>(529,907)</u>
Net Position			
Net Investment in Capital Assets	18,625,782	19,252,924	(627,142)
Restricted	3,359,620	2,876,753	482,867
Unrestricted	5,326,737	5,492,753	(166,016)
Total Net Position	<u><u>\$27,312,139</u></u>	<u><u>\$27,622,430</u></u>	<u><u>(\$310,291)</u></u>

Total assets decreased by \$1,815,218. Capital assets decreased \$1,068,695 due to current year depreciation expense which exceeded current year capital asset additions. Cash and cash equivalents also decreased in the amount of \$879,748 due to the increase in the number of retirements and the associated payment of compensated absences and longevity amounts.

Total liabilities decreased \$975,020. The decrease is apparent in the largest component of liabilities, long-term liabilities, in the amount of \$622,784. The decrease is mostly the result of the School District making required debt payments on outstanding bonds and loans. The decrease in other liabilities is due to decreases in accounts payable and salary related liabilities.

Decreases in deferred inflows of resources are due to the decrease in the non-current portion of property taxes receivable as a result of the decrease in debt service millage.

Net position decreased \$310,291, which is less than two percent of the prior year amount. Net Investment in Capital Assets decreased by \$627,142. This decrease can be attributed primarily to current year depreciation expense which is offset by capital asset acquisitions. The decrease in unrestricted net position relates to the decrease in property taxes levied for general purposes as discussed above.

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

Table 2 shows the changes in net position for the fiscal year-ended June 30, 2014 and comparisons to fiscal year 2013.

Table 2
Changes in Net Position

	Governmental Activities		
	2014	2013	Change
Revenues			
Program Revenues			
Charges for Services	\$2,144,990	\$2,092,241	\$52,749
Operating Grants, Contributions and Interest	3,022,131	1,798,474	1,223,657
Capital Grants and Contributions	78,136	132,886	(54,750)
	<u>5,245,257</u>	<u>4,023,601</u>	<u>1,221,656</u>
General Revenues			
Property Taxes	7,281,464	6,761,287	520,177
Payment in Lieu of Taxes	4,434	16,620	(12,186)
Grants and Entitlements	9,218,780	9,657,304	(438,524)
Investment Earnings	57,695	52,861	4,834
Gain on Sale of Capital Assets	1,500	0	1,500
Miscellaneous	200,068	142,008	58,060
	<u>16,763,941</u>	<u>16,630,080</u>	<u>133,861</u>
Total Revenues	<u>22,009,198</u>	<u>20,653,681</u>	<u>1,355,517</u>
Program Expenses			
Instruction			
Regular	9,524,425	9,748,054	(223,629)
Special	3,203,350	2,651,823	551,527
Vocational	221,835	237,360	(15,525)
Student Intervention Services	391,917	375,882	16,035
Support Services			
Pupils	470,230	468,098	2,132
Instructional Staff	559,543	754,345	(194,802)
Board of Education	41,403	46,291	(4,888)
Administration	2,140,302	2,135,532	4,770
Fiscal	613,587	456,062	157,525
Operation and Maintenance of Plant	1,952,364	1,866,368	85,996
Pupil Transportation	1,323,491	1,339,180	(15,689)
Central	202,186	171,908	30,278
Food Service Operations	1,064,469	1,088,906	(24,437)
Extracurricular Activities	460,341	480,447	(20,106)
Interest	150,046	246,488	(96,442)
Total Expenses	<u>22,319,489</u>	<u>22,066,744</u>	<u>252,745</u>
<i>Change in Net Position</i>	(310,291)	(1,413,063)	1,102,772
Net Position Beginning of Year	<u>27,622,430</u>	<u>29,035,493</u>	<u>(1,413,063)</u>
Net Position End of Year	<u>\$27,312,139</u>	<u>\$27,622,430</u>	<u>(\$310,291)</u>

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

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 33 percent of revenues for governmental activities for the School District in fiscal years 2013 and 2014. While the School District operates on a very tight budget, revenue sources are projected to keep pace with expenses for the succeeding fiscal year.

During fiscal year 2014, total revenues increased \$1,355,517. The increase was due to the School District participating in the Straight A Grant program and being awarded \$581,559 in operating grants to be used for technology related purposes. Additionally, this increase was related to a portion of the State Foundation revenue, in the amount of \$681,901, now being shown as program revenue under the current State of Ohio Budget Bill. Furthermore, property tax revenue increased because of the increase in the amount available as an advance on the August property tax. Timing of real estate tax bills and earlier collections on those bills before fiscal year-end resulted in the fluctuation of this amount.

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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Instruction:				
Regular	\$9,524,425	\$7,390,667	\$9,748,054	\$8,083,039
Special	3,203,350	1,639,493	2,651,823	2,092,356
Vocational	221,835	188,155	237,360	174,434
Student Intervention Services	391,917	391,917	375,882	375,882
Support Services:				
Pupils	470,230	470,230	468,098	468,098
Instructional Staff	559,543	267,131	754,345	397,224
Board of Education	41,403	41,403	46,291	46,291
Administration	2,140,302	2,140,302	2,135,532	2,100,300
Fiscal	613,587	608,191	456,062	453,036
Operation and Maintenance of Plant	1,952,364	1,873,078	1,866,368	1,736,759
Pupil Transportation	1,323,491	1,298,269	1,339,180	1,326,837
Central	202,186	191,386	171,908	161,108
Food Service Operations	1,064,469	123,157	1,088,906	89,018
Extracurricular Activities	460,341	300,807	480,447	292,273
Interest	150,046	150,046	246,488	246,488
Total Expenses	<u>\$22,319,489</u>	<u>\$17,074,232</u>	<u>\$22,066,744</u>	<u>\$18,043,143</u>

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

As shown from the table above, the net cost of services has remained relatively consistent at between 76 and 82 percent of the total cost of services. Instructional programs have remained consistent at approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 71 percent is for regular instruction, 24 percent for special instruction, 2 percent for vocational, and 3 percent for intervention services instruction, which are similar percentages in comparison to fiscal year 2013.

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with 76 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 \$21,675,883, expenditures of \$21,481,906, and a combined net increase in fund balances, including other financing source, in the amount of \$195,477. This net increase represents less than three percent of the prior year combined fund balance. This small change is representative the School District's commitment of keeping expenditures in line with fixed revenue streams.

The largest change was in the General Fund, with an increase in fund balance in the amount of \$88,072. The General Fund is the primary operating fund of the School District. At the end of fiscal year 2014, unassigned fund balance was \$3,834,674, while total fund balance was \$4,895,339. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22 percent of total General Fund expenditures, while total fund balance represents 28 percent of that same amount. Due to conservative spending, the General Fund realized a small overall increase in expenditures in the amount of \$87,031.

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 \$961,105 below final estimates of \$18,492,660. Of this difference, the majority was due to property taxes estimates being higher than final amounts.

The largest variance in expenditures was in regular instruction with final actual amounts being \$985,448 less than final budgeted amounts. Expenditure coding changes required by the State are the main reason for this variance as the School District is permitted to budget at the fund level instead of at the function level.

The School District's ending General Fund budgetary basis balance was \$247,278 higher than the final estimate.

East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the School District had \$23,362,316 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 8 for more detailed information of the School District's capital assets.

Debt

At June 30, 2014, the School District had \$4,230,000 in general obligation bonds outstanding, with \$370,000 due within one year, and \$266,088 in Energy Conservation Notes, with \$33,181 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 the Perry Elementary building. The notes will be fully repaid by fiscal year 2021. See Note 14 for more detail on the School District's debt including the current year refunding.

Economic Factors

Based on the most recent five year forecast adopted by the Board of Education, the School District is projecting deficit spending in the amount of \$713,418, beginning in fiscal year 2015. However, all projected ending cash balances are forecasted to be positive throughout the duration of the latest forecast. 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 citizen's, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lottie Fisher, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at lfisher@eastmschools.org.

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East Muskingum Local School District

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,582,081
Cash and Cash Equivalents in Segregated Accounts	1,458
Accounts Receivable	7,466
Accrued Interest Receivable	6,121
Intergovernmental Receivable	847,302
Payment in Lieu of Taxes Receivable	4,434
Inventory Held for Resale	4,293
Materials and Supplies Inventory	164,861
Prepaid Items	37,299
Property Taxes Receivable	7,667,187
Nondepreciable Capital Assets	244,989
Depreciable Capital Assets, Net	<u>23,117,327</u>
Total Assets	<u>40,684,818</u>
Liabilities	
Accrued Wages and Benefits Payable	1,460,952
Accounts Payable	118,496
Intergovernmental Payable	527,740
Tax Refund Payable	74,181
Matured Compensated Absences Payable	78,688
Matured Longevity Benefits Payable	171,476
Accrued Interest Payable	16,968
Claims Payable	289,605
Vacation Benefits Payable	61,260
Long-Term Liabilities:	
Due Within One Year	660,401
Due In More Than One Year	<u>5,396,184</u>
Total Liabilities	<u>8,855,951</u>
Deferred Inflows of Resources	
Property Taxes	4,512,294
Payment in Lieu of Taxes	4,434
Total Deferred Inflows of Resources	<u>4,516,728</u>
Net Position	
Net Investment in Capital Assets	18,625,782
Restricted for:	
Capital Projects	1,438,056
Debt Service	546,931
Unclaimed Monies	1,570
State Programs	464,541
Federal Programs	264,504
Food Service	400,373
Classroom Facilities Maintenance	146,154
Other Purposes	97,491
Unrestricted	<u>5,326,737</u>
Total Net Position	<u><u>\$27,312,139</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net Expense and Change in Net Position	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$9,524,425	\$1,512,076	\$586,798	\$34,884	(\$7,390,667)
Special	3,203,350	0	1,563,857	0	(1,639,493)
Vocational	221,835	0	33,680	0	(188,155)
Student Intervention Services	391,917	0	0	0	(391,917)
Support Services:					
Pupils	470,230	0	0	0	(470,230)
Instructional Staff	559,543	0	292,412	0	(267,131)
Board of Education	41,403	0	0	0	(41,403)
Administration	2,140,302	0	0	0	(2,140,302)
Fiscal	613,587	0	1,346	4,050	(608,191)
Operation and Maintenance of Plant	1,952,364	9,132	56,174	13,980	(1,873,078)
Pupil Transportation	1,323,491	0	0	25,222	(1,298,269)
Central	202,186	0	10,800	0	(191,386)
Operation of Non-Instructional Services:					
Food Service Operations	1,064,469	464,248	477,064	0	(123,157)
Extracurricular Activities	460,341	159,534	0	0	(300,807)
Interest	150,046	0	0	0	(150,046)
Total Governmental Activities	<u>\$22,319,489</u>	<u>\$2,144,990</u>	<u>\$3,022,131</u>	<u>\$78,136</u>	<u>(17,074,232)</u>

General Revenues

Property Taxes Levied for:

General Purposes	6,054,508
Capital Outlay	610,901
Debt Service	506,061
Capital Maintenance	109,994
Payment in Lieu of Taxes	4,434
Grants and Entitlements not	
Restricted to Specific Programs	9,218,780
Investment Earnings	57,695
Gain on Sale of Capital Assets	1,500
Miscellaneous	200,068
Total General Revenues	<u>16,763,941</u>

Change in Net Position (310,291)

Net Position Beginning of Year 27,622,430

Net Position End of Year \$27,312,139

See accompanying notes to the basic financial statements

East Muskingum Local School District

Balance Sheet

Governmental Funds

June 30, 2014

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,757,322	\$1,205,182	\$1,276,309	\$7,238,813
Cash and Cash Equivalents in Segregated Accounts	0	0	1,458	1,458
Accounts Receivable	5,410	0	2,056	7,466
Intergovernmental Receivable	4,534	0	842,768	847,302
Accrued Interest Receivable	6,121	0	0	6,121
Inventory Held for Resale	0	0	4,293	4,293
Materials and Supplies Inventory	162,101	0	2,760	164,861
Prepaid Items	33,513	1,172	2,614	37,299
Interfund Receivable	63,280	0	0	63,280
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,570	0	0	1,570
Property Taxes Receivable	6,375,070	647,674	644,443	7,667,187
Payment in Lieu of Taxes Receivable	3,678	449	307	4,434
Total Assets	\$11,412,599	\$1,854,477	\$2,777,008	\$16,044,084
Liabilities				
Matured Compensated Absences Payable	\$78,688	\$0	\$0	\$78,688
Matured Longevity Benefits Payable	171,476	0	0	171,476
Accounts Payable	90,160	23,788	4,548	118,496
Accrued Wages and Benefits Payable	1,351,504	0	109,448	1,460,952
Interfund Payable	0	0	63,280	63,280
Intergovernmental Payable	501,295	0	26,445	527,740
Tax Refund Payable	61,919	7,561	4,701	74,181
Total Liabilities	2,255,042	31,349	208,422	2,494,813
Deferred Inflows of Resources				
Property Taxes	3,753,241	384,623	374,430	4,512,294
Payment in Lieu of Taxes	3,678	449	307	4,434
Unavailable Revenue	505,299	48,669	736,204	1,290,172
Total Deferred Inflows of Resources	4,262,218	433,741	1,110,941	5,806,900
Fund Balances				
Nonspendable:				
Inventories	162,101	0	2,760	164,861
Prepaid Items	33,513	1,172	2,614	37,299
Unclaimed Monies	1,570	0	0	1,570
Restricted for:				
Food Service Operations	0	0	402,906	402,906
State Grant Expenditures	0	0	26,031	26,031
Federal Grant Expenditures	0	0	19,749	19,749
Classroom Facilities Maintenance	0	0	136,981	136,981
Capital Projects	0	1,388,215	0	1,388,215
Debt Service	0	0	520,763	520,763
Other Purposes	0	0	95,841	95,841
Assigned to:				
Purchases on Order	105,593	0	0	105,593
Capital Projects	0	0	250,000	250,000
Subsequent Year's Appropriation	713,418	0	0	713,418
Other Purposes	44,470	0	0	44,470
Unassigned	3,834,674	0	0	3,834,674
Total Fund Balances	4,895,339	1,389,387	1,457,645	7,742,371
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$11,412,599	\$1,854,477	\$2,777,008	\$16,044,084

See accompanying notes to the basic financial statements

East Muskingum Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2014*

Total Governmental Fund Balances		\$7,742,371
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		23,362,316
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Grants	683,265	
Property Taxes	597,648	
Tuition and Fees	2,508	
Charges for Services	630	
Interest	6,121	
Total	1,290,172	1,290,172
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 position.		1,052,093
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.		(16,968)
Long-term liabilities and vacation benefits payable are not due and payable in the current period and , therefore, are not reported in the funds:		
General Obligation Serial/Term Bonds	(4,230,000)	
Bond Premium	(136,140)	
Energy Conservation Loan	(266,088)	
Capital Leases	(104,306)	
Compensated Absences	(446,358)	
Longevity Benefits Payable	(873,693)	
Vacation Benefits Payable	(61,260)	
Total	(6,117,845)	(6,117,845)
Net Position of Governmental Activities		\$27,312,139

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, 2014

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,100,129	\$616,980	\$627,336	\$7,344,445
Payment in Lieu of Taxes	3,678	449	307	4,434
Intergovernmental	9,970,834	78,136	1,864,338	11,913,308
Interest	58,386	0	100	58,486
Tuition and Fees	1,509,568	0	0	1,509,568
Extracurricular Activities	0	0	159,534	159,534
Rent	9,132	0	0	9,132
Charges for Services	0	0	463,618	463,618
Contributions and Donations	13,290	0	0	13,290
Miscellaneous	198,642	0	1,426	200,068
Total Revenues	<u>17,863,659</u>	<u>695,565</u>	<u>3,116,659</u>	<u>21,675,883</u>
Expenditures				
Current:				
Instruction:				
Regular	8,384,300	253,608	237,916	8,875,824
Special	2,205,758	0	777,920	2,983,678
Vocational	228,890	0	0	228,890
Student Intervention Services	391,917	0	170,121	562,038
Support Services:				
Pupils	412,380	0	0	412,380
Instructional Staff	339,391	0	0	339,391
Board of Education	33,279	0	0	33,279
Administration	1,929,632	0	0	1,929,632
Fiscal	545,835	29,445	24,356	599,636
Operation and Maintenance of Plant	1,559,310	101,639	188,777	1,849,726
Pupil Transportation	1,235,369	183,363	0	1,418,732
Central	177,121	0	23,440	200,561
Operation of Non-Instructional Services:				
Food Service Operations	0	0	905,070	905,070
Extracurricular Activities	297,911	0	158,297	456,208
Capital Outlay	0	94,024	0	94,024
Debt Service:				
Principal Retirement	31,186	0	396,753	427,939
Interest and Fiscal Charges	4,808	0	160,090	164,898
Total Expenditures	<u>17,777,087</u>	<u>662,079</u>	<u>3,042,740</u>	<u>21,481,906</u>
Excess of Revenues Over Expenditures	<u>86,572</u>	<u>33,486</u>	<u>73,919</u>	<u>193,977</u>
Other Financing Source				
Proceeds from Sale of Capital Assets	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>1,500</u>
Net Change in Fund Balances	88,072	33,486	73,919	195,477
Fund Balances Beginning of Year	<u>4,807,267</u>	<u>1,355,901</u>	<u>1,383,726</u>	<u>7,546,894</u>
Fund Balances End of Year	<u>\$4,895,339</u>	<u>\$1,389,387</u>	<u>\$1,457,645</u>	<u>\$7,742,371</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, 2014

Net Change in Fund Balances - Total Governmental Funds		\$195,477
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 - Capital Outlay	363,346	
Current Year Depreciation	(1,432,041)	
Total	(1,068,695)	(1,068,695)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of proceeds and gain on disposal of assets:		
Proceeds from Sale of Capital Assets	(1,500)	
Gain on Disposal of Capital Assets	1,500	
Total	0	0
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	(62,981)	
Accrued Interest Receivable	(691)	
Tuition and Fees	2,508	
Charges for Services	630	
Intergovernmental	392,349	
Total	331,815	331,815
Repayments of principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.		
General Obligation Bonds	365,000	
Energy Conservation Notes	31,753	
Capital Leases	31,186	
Total	427,939	427,939
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued Interest	1,238	
Amortization of Bond Premium	13,614	
Total	14,852	14,852
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	(1,316)	
Compensated Absences	73,206	
Longevity Benefits Payable	108,025	
Total	179,915	179,915
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 position of the internal service fund is reported with governmental activities.		
		(391,594)
Change in Net Position of Governmental Activities		(\$310,291)
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, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,943,870	\$6,943,870	\$5,748,638	(\$1,195,232)
Payment in Lieu of Taxes	0	0	3,678	3,678
Intergovernmental	9,728,388	9,728,388	9,967,992	239,604
Interest	45,000	45,000	51,618	6,618
Tuition and Fees	1,456,325	1,456,325	1,509,761	53,436
Rentals	9,132	9,132	9,132	0
Contributions and Donations	13,290	13,290	13,290	0
Miscellaneous	291,695	296,655	227,446	(69,209)
Total Revenues	18,487,700	18,492,660	17,531,555	(961,105)
Expenditures				
Current:				
Instruction:				
Regular	8,704,650	9,454,651	8,469,203	985,448
Special	2,315,480	2,315,480	2,278,128	37,352
Vocational	228,415	228,415	214,579	13,836
Student Intervention Services	399,441	399,441	391,917	7,524
Support Services:				
Pupils	446,638	446,638	465,409	(18,771)
Instructional Staff	435,516	436,122	352,663	83,459
Board of Education	44,900	44,900	33,128	11,772
Administration	1,986,108	1,986,108	2,019,458	(33,350)
Fiscal	443,893	443,893	487,884	(43,991)
Operation and Maintenance of Plant	1,832,213	1,832,213	1,643,933	188,280
Pupil Transportation	1,346,471	1,346,472	1,313,931	32,541
Central	83,052	82,446	178,338	(95,892)
Extracurricular Activities	345,634	345,634	306,959	38,675
Debt Service:				
Principal Retirement	31,186	31,186	31,186	0
Interest and Fiscal Charges	4,808	4,808	4,808	0
Total Expenditures	18,648,405	19,398,407	18,191,524	1,206,883
Excess of Revenues Over (Under) Expenditures	(160,705)	(905,747)	(659,969)	245,778
Other Financing Source				
Proceeds from Sale of Capital Assets	0	0	1,500	1,500
Net Change in Fund Balance	(160,705)	(905,747)	(658,469)	247,278
Fund Balance Beginning of Year	4,894,045	4,894,045	4,894,045	0
Prior Year Encumbrances Appropriated	335,203	335,203	335,203	0
Fund Balance End of Year	\$5,068,543	\$4,323,501	\$4,570,779	\$247,278

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Fund Net Position
Self-Insurance Internal Service Fund
June 30, 2014

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,341,698
Current Liabilities	
Claims Payable	<u>289,605</u>
Net Position	
Unrestricted	<u><u>\$1,052,093</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2014

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,623,415
Operating Expenses	
Purchased Services	426,435
Claims	2,588,574
Total Operating Expenses	3,015,009
Change in Net Position	(391,594)
Net Position Beginning of Year	1,443,687
Net Position End of Year	\$1,052,093

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2014

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$2,623,415
Cash Received from Other Operating Sources	1,455
Cash Payments to Suppliers for Services	(426,435)
Cash Payments for Claims	(2,460,969)
	(262,534)
<i>Net Cash Used for Operating Activities</i>	(262,534)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,604,232
<i>Cash and Cash Equivalents End of Year</i>	\$1,341,698
Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities:	
Operating Loss	(\$391,594)
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,455
Increase in Claims Payable	127,605
	(262,534)
<i>Net Cash Used for Operating Activities</i>	(\$262,534)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2014

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$47,598</u></u>
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Liabilities

Due to Students	<u><u>\$47,598</u></u>
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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, 2014

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 103 classified employees and 177 certificated full-time teaching personnel who provide services to 2,053 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, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burden on, the primary government. The School District has no component units.

The School District participates in six organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association (LACA), Mid-East Career and Technology Centers, the Metropolitan Educational Council (MEC), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Ohio Coalition of Equity and Adequacy of School Funding, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 16 and 17 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 more significant of the School District’s accounting policies are described below.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

A. Basis of Presentation

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

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

B. Fund Accounting

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended and transferred according to the general laws of Ohio.

Permanent Improvement Levy Fund The Permanent Improvement Levy Capital Projects Fund of the School District is used to account for permanent improvement levy proceeds restricted to be used for expenditures of 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 position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

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

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

C. Measurement Focus

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

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.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 position. The statement of changes in fund net position 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 outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, payments in lieu of taxes, grants, entitlements, and donations. On the accrual basis, payments from property taxes (see Note 6) and revenue in lieu of taxes (see Note 7) are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, there are no amounts currently on the financial statements that are defined as deferred outflows of resources.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, and unavailable revenue. Property and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, accrued interest, accounts receivable, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

During fiscal year 2014, investments were limited to negotiable certificates of deposits. Investments in negotiable certificates of deposits are reported at fair value based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$58,386, which includes \$23,662 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, 2014, 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.

East Muskingum Local School District
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For the Fiscal Year Ended June 30, 2014

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/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 position 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

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.

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

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. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activity column of the statement of net position.

N. Fund Balance

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

East Muskingum Local School District
Notes to the Basic Financial Statements
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Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash. It can also include the long-term amount of loans receivable, prepaids, as well as inventory, unless the use of the proceeds from the collection of those receivables, or from the use of the prepaids or inventory, is restricted, committed, or assigned.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education or a School District representative delegated that authority by resolution of by State statute. State statute authorizes the School District Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in fiscal year 2015’s appropriated budget.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

O. Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation enacted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources required to be used for local resources restricted to expenditures for specified purposes.

East Muskingum Local School District
Notes to the Basic Financial Statements
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The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Operating Revenues and Expenses

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 3 - Compliance

Contrary to Section 5705.41, Revised Code, the Bond Retirement Debt Service Fund had expenditures plus encumbrances in excess of appropriations in the amount of \$1,110.

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) 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 unreported cash and to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budget basis.
4. Prepaid items are reported on the balance sheet (GAAP basis) but not on the budget basis.
5. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

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

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For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balance

GAAP Basis	\$88,072
Net Adjustment for Revenue Accruals	(420,472)
Net Adjustment for Expenditure Accruals	(157,410)
Beginning of Fiscal Year:	
Fair Value Adjustment for Investments	56,986
Prepaid Items	27,405
End of Fiscal Year:	
Fair Value Adjustment for Investments	(63,754)
Prepaid Items	(33,513)
Advances - In	95,136
Advances - Out	(63,280)
Adjustment for Encumbrances	(187,639)
Budget Basis	<u><u>(\$658,469)</u></u>

Note 5 - Deposits and Investments

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

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

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

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

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;

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer’s investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$8,234,828 of the School District’s bank balance of \$8,736,616 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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, 2014, the School District had investments in negotiable certificates of deposit:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>	<u>Rating</u>	<u>Rating Agency</u>
Negotiable Certificates of Deposit	\$3,326,850	10/30/2014-5/30/2019	100.00%	N/A	N/A

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

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

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

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

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance, and recognized as revenue at June 30, 2014, was \$2,125,159 in the General Fund, \$38,800 in the Classroom Facilities Special Revenue Fund, \$178,904 in the Bond Retirement Debt Service Fund, and \$214,382 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2013, was \$1,773,668 in the General Fund, \$31,499 in the Classroom Facilities Special Revenue Fund, \$161,959 in the Bond Retirement Debt Service Fund, and \$180,446 in the Permanent Improvement Levy Capital Projects Fund.

East Muskingum Local School District
Notes to the Basic Financial Statements
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On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second- Half Collections		2014 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$243,746,100	85.76%	\$240,348,210	85.50%
Public Utility Personal	40,482,460	14.24%	40,795,280	14.50%
Total	\$284,228,560	100.00%	\$281,143,490	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$38.10		 \$37.87	

The decrease in the millage from the prior year is due to a decrease in the tax rate of the Bond Retirement Debt Service Fund. The county auditors review the balance in this fund and adjust the millage so that the balance is not excessive as compared to future debt service requirements.

Note 7 - Receivables

Receivables at June 30, 2014, consisted of property taxes, intergovernmental grants, accounts, accrued interest, and payment in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$597,648 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>	
Race to the Top	\$101,984
Title I	255,464
Title II-A	1,816
Straight A Grant	438,510
Title VI-B IDEA	44,994
Medicaid Reimbursements	4,534
Total	\$847,302

Payment in Lieu of Taxes

On September 20, 1999, Muskingum County entered into an enterprise zone agreement with Plaskolite Inc. for the purpose of constructing a new manufacturing facility.

East Muskingum Local School District
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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 used 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, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Nondepreciable Capital Assets				
Land	\$144,115	\$94,024	\$0	\$238,139
Land Improvements	6,850	0	0	6,850
Total Non-Depreciable Capital Assets	<u>150,965</u>	<u>94,024</u>	<u>0</u>	<u>244,989</u>
Depreciable Capital Assets				
Buildings and Improvements	41,686,979	0	0	41,686,979
Furniture, Fixtures, and Equipment	1,559,906	10,959	(6,200)	1,564,665
Vehicles	2,208,608	258,363	(225,232)	2,241,739
Total Depreciable Capital Assets	<u>45,455,493</u>	<u>269,322</u>	<u>(231,432)</u>	<u>45,493,383</u>
Less Accumulated Depreciation				
Buildings and Improvements	(18,811,953)	(1,261,446)	0	(20,073,399)
Furniture, Fixtures, and Equipment	(1,073,762)	(55,902)	6,200	(1,123,464)
Vehicles	(1,289,732)	(114,693)	225,232	(1,179,193)
Total Accumulated Depreciation	<u>(21,175,447)</u>	<u>(1,432,041) *</u>	<u>231,432</u>	<u>(22,376,056)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>24,280,046</u>	<u>(1,162,719)</u>	<u>0</u>	<u>23,117,327</u>
Governmental Activities Capital Assets, Net	<u>\$24,431,011</u>	<u>(\$1,068,695)</u>	<u>\$0</u>	<u>\$23,362,316</u>

East Muskingum Local School District
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* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$677,694
Special	146,479
Vocational	16,492
Support Services:	
Pupils	42,583
Instructional Staff	38,526
Board of Education	8,124
Administration	139,735
Fiscal	4,032
Operation and Maintenance of Plant	90,217
Pupil Transportation	112,260
Central	1,625
Extracurricular	4,133
Food Service Operations	150,141
Total Depreciation Expense	<u><u>\$1,432,041</u></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 2014, 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)	\$57,814,006
Automobile Liability (\$250 Comprehensive/\$500 Collision deductible)	1,000,000
Auto Medical Payments	5,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Employer's Liability	1,000,000
Educational Legal Liability Limit (\$2,500 deductible)	1,000,000
Aggregate Per Year	3,000,000
Commercial Excess Liability	1,000,000
Commercial Crime	25,000

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

B. Workers' Compensation

For fiscal year 2014, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The Board pays 80 percent of the medical/surgical premiums for family coverage and 90 percent for single coverage. The Board's share of the medical/surgical premiums is \$1,029 for family coverage and \$442 for single coverage. The Board pays 100 percent of the dental premiums for family and single coverage which is \$74 for both. The medical/surgical and dental premiums are paid from the fund that pays the salary of the covered employee. The claims liability of \$289,605 reported in the internal service fund at June 30, 2014, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$3,649,588. In addition, the School District has contracted for an excess stop-loss coverage, with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2013 and 2014 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2013	\$146,000	\$2,419,701	\$2,403,701	\$162,000
2014	162,000	2,588,574	2,460,969	289,605

Note 10 - Employee Benefits

A. Compensated Absences

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

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

B. Life and Vision Insurance

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

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

C. Longevity Benefits Payable

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

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$283,720, \$298,066, and \$279,561, respectively. For fiscal year 2014, 83.56 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can 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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 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.

The School District's required contributions for pension obligations to STRS Ohio for the DB Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$1,167,795, \$1,114,545, and \$1,136,893, respectively. The School District's required contributions for the Defined Benefit portion of the Combined Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$8,111, \$13,373, and \$7,238, respectively. The School District's required contributions for the Defined Contribution Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$13,437, \$13,326, and \$8,358, respectively.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Member contributions to STRS Ohio for the Defined Benefit Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$917,553, \$815,389, and \$812,067, respectively. Member contributions for the Defined Benefit portion of the Combined Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$6,373, \$9,552, and \$5,170, respectively. Member contributions for the Defined Contribution Plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$10,558, \$9,518, and \$5,970, respectively.

For fiscal year 2014, 84 percent of the contributions have been paid for the Defined Benefit plan and 86 percent has been paid for the Defined Contribution and Combined Plans, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

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. As of June 30, 2014, there are three employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, 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 SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$39,845 in surcharge.

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, 2014, 2013, and 2012, were \$42,790, \$41,092, and \$41,911, respectively. For fiscal year 2014, 5.72 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, 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, 2014, 2013, and 2012, were \$16,548, \$16,700, and \$16,246, respectively. For fiscal year 2014, 83.64 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School District participates 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. Ohio law authorizes STRS Ohio to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012, were \$89,154, \$85,700, and \$84,065, respectively. For fiscal year 2014, 84.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effective July 1, 2014.

Note 13 - Capitalized Leases

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

The leases meet the criteria of a capital lease which is defined as transferring benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$195,374, 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 \$167,501. Principal payments in fiscal year 2014 totaled \$31,186 in the governmental funds.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Future minimum lease payments through fiscal year 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$32,445	\$3,549
2016	33,755	2,239
2017	35,117	877
2018	2,989	10
Totals	<u>\$104,306</u>	<u>\$6,675</u>

Note 14 - Long-Term Obligations

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

	<u>Outstanding 06/30/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 06/30/14</u>	<u>Due Within One Year</u>
Governmental Activities:					
2012 School Facilities Refunding					
Serial Bonds - various	\$4,595,000	\$0	\$365,000	\$4,230,000	\$370,000
Bond Premium	149,754	0	13,614	136,140	0
Total General Obligation Bonds	<u>4,744,754</u>	<u>0</u>	<u>378,614</u>	<u>4,366,140</u>	<u>370,000</u>
2007 House Bill 264 Energy					
Conservation Notes - 4.5%	297,841	0	31,753	266,088	33,181
Total Long-Term Debt	<u>5,042,595</u>	<u>0</u>	<u>410,367</u>	<u>4,632,228</u>	<u>403,181</u>
Capital Leases	135,492	0	31,186	104,306	32,445
Compensated Absences Payable	519,564	5,482	78,688	446,358	82,973
Longevity Benefits Payable	<u>981,718</u>	<u>63,451</u>	<u>171,476</u>	<u>873,693</u>	<u>141,802</u>
Total Long-Term Obligations	<u>\$6,679,369</u>	<u>\$68,933</u>	<u>\$691,717</u>	<u>\$6,056,585</u>	<u>\$660,401</u>

Compensated absences and the longevity benefits payable will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service Special Revenue Fund. The capital leases will be paid from the General Fund.

On September 9, 2011, the School District issued \$4,950,000 of School Facilities General Obligation Refunding serial bonds with varying interest rates between 2 percent to 4 percent. The general obligation refunding bonds were sold at a premium of \$176,988 that will be amortized over the term of the bonds. The amount amortized for fiscal year 2014 was \$13,614 leaving an unamortized balance of \$136,140. Issuance costs associated with the refunding bond issue, in the amount of \$86,809, was expensed in the year of issuance. The refunding resulted in a current refunding of the 2001 School Facilities serial and term bonds. \$5,121,344 (after premium, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2001 bonds.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

On December 1, 2011, the 2001 refunded bonds were called and paid in full and the escrow account was closed. As a result of the refunding, \$5,305,000 of refunded bonds is considered defeased and the liability is removed from the statement of net position. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition in the amount of \$121,344. This difference was expensed during fiscal year 2012. The School District completed the current refunding to reduce its total debt service requirements over the next 12 years by \$582,478 in order to obtain an economic gain of \$487,382.

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

Year	Principal	Interest	Total
2015	\$370,000	\$139,338	\$509,338
2016	380,000	131,188	511,188
2017	385,000	122,888	507,888
2018	395,000	111,513	506,513
2019	410,000	95,100	505,100
2020-2023	2,290,000	231,106	2,521,106
Total	\$4,230,000	\$831,133	\$5,061,133

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

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

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

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2014, are as follows:

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Year	Principal	Interest	Total
2015	\$33,181	\$11,974	\$45,155
2016	34,675	10,480	45,155
2017	36,235	8,920	45,155
2018	37,866	7,290	45,156
2019	39,570	5,586	45,156
2020-2021	84,561	5,750	90,311
Total	\$266,088	\$50,000	\$316,088

The School District's overall legal debt margin was \$21,193,523, with an unvoted debt margin of \$280,813 at June 30, 2014.

Note 15 - Interfund Balances

The governmental balance sheet reflects an interfund receivable and payable in the amount of \$63,280. The General Fund made short-term loans to the Title I and the Miscellaneous Federal Grants Special Revenue Funds in the amounts of \$46 and \$63,234, respectively. These loans were for actual cash deficits and were covered by cash from the General Fund until grant monies are received.

Note 16 - Jointly Governed Organizations

A. Licking Area Computer Association (LACA)

The School District is a participant in LACA, which is a computer consortium. LACA is an association which serves over thirty entities within the boundaries of Licking, Muskingum, Fairfield, Perry, Knox, and Medina Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The board exercised total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of LACA is not dependent on the School District's continued participation and the School District has no equity interest in the Association. The LACA constitution states that any school district withdrawing from the Association prior to the dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for computer and internet services during fiscal year 2014 were \$92,345. The fiscal agent for LACA is the Career and Technology Education Centers of Licking County. Financial information may be obtained from LACA at 145 North Quentin Road, Newark, Ohio 43055.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of one representative from each of the participating school district's elected boards. The board possesses its own taxing authority. The board also exercised total control over the operations of Mid-East Career and Technology Centers including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2014, the School District made no contributions to the Center. Financial information may be obtained from Mid-East Career and Technology Centers at 400 Richards Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 195 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 42 counties in Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The board exercised total control over the operations of MEC including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board.

The governing board of MEC is composed of 44 members, either the superintendent, a designated representative, or a member of the board of education for each participating school district in Franklin County and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2014, the School District made a payment of \$818 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council at 2100 Citygate Drive, Columbus, Ohio 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 35-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 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition 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 Coalition. During fiscal year 2014, the School District made a payment of \$325 for a membership fee. Financial information may be obtained from the Coalition of Rural and Appalachian Schools at 314 F McCracken Hall, Ohio University, Athens, Ohio 45701.

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

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a board, which possesses its own taxing authority, consisting of one representative from each of the participating school district's elected boards. The board also exercised total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. OME-RESA provides educational management information and cooperative purchasing services to member districts.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The School District participates in the sales service programs to purchase food, office, and classroom supplies. These programs allow schools to purchase supplies at reduced rates. During fiscal year 2014, the total amount paid to OME-RESA from the School District was \$595 for these services. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. Financial information may be obtained from OME-RESA at 2230 Sunset Boulevard, Suite 2, Steubenville, Ohio 43952.

F. Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The Committee exercised total control over the operations of the Coalition including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The membership of the coalition includes over 500 school districts throughout the State of Ohio. Member school districts, joint vocational schools, and educational service centers pay annual dues and supplemental dues based on their pupil enrollment. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2014, the School District paid \$1,103 to the Coalition. Financial information may be obtained from the Ohio Coalition of Equity and Adequacy of School Funding at 100 South Third Street, Columbus, Ohio 43215.

Note 17 - Insurance Purchasing Pools

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

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

B. Ohio School Benefits Cooperative

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of 34 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.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

B. Litigation

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

Note 19 - Set-Asides

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

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

	Capital Acquisition
Set-aside Reserve Balance June 30, 2013	\$0
Current Year Set-aside Requirement	369,484
Current Year Offsets	(1,186,890)
Current Year Qualifying Disbursements	(94,463)
Total	(\$911,869)
Balance Carried Forward to Fiscal Year 2015	\$0

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 20 - Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<u>Governmental Funds</u>	<u>Encumbrances</u>
General Fund	\$187,639
Permanent Improvement Levy	185,069
Nonmajor Governmental Funds	<u>37,202</u>
Total Governmental Funds	<u><u>\$409,910</u></u>

Note 21 - Subsequent Event

The Board of Education approved a 1 percent base salary increase for certified, classified, and administrative employees at the August 14, 2014 regular meeting to be effective August 11, 2014.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program - Food Distribution	N/A	10.555	\$66,064	\$66,064
Cash Assistance:				
School Breakfast Program	2014	10.553	82,188	82,188
National School Lunch Program	2014	10.555	361,234	361,234
Cash Assistance Subtotal			<u>443,422</u>	<u>443,422</u>
Total Child Nutrition Cluster			509,486	509,486
State Administrative Expenses for Child Nutrition	2014	10.560		<u>12,640</u>
Total U.S. Department of Agriculture			509,486	522,126
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2013	84.010	46,324	40,331
	2014		342,804	342,804
Total Title I Grants to Local Educational Agencies			<u>389,128</u>	<u>383,135</u>
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	2013	84.027	36,749	39,601
	2014		330,320	330,320
Total Special Education - Grants to States (IDEA, Part B)			<u>367,069</u>	<u>369,921</u>
Special Education - Preschool Grants	2014	84.173	7,390	7,390
Total Special Education Cluster			374,459	377,311
Improving Teacher Quality State Grants	2013	84.367	14,673	14,938
	2014		98,229	98,229
Total Improving Teacher Quality State Grants			<u>112,902</u>	<u>113,167</u>
ARRA - Race-to-the-Top Incentive Grants, Recovery Act				
Race to the Top	2013	84.395	14,450	340
Race to the Top	2014		54,373	54,373
Race to the Top Mini Grant	2013		6,462	1,736
Race to the Top Mini Grant	2014		7,700	7,700
Ohio Appalachian Collaborative (OAC)	2014		180,490	190,877
Ohio Resident Educator Program	2014		2,450	2,450
Total ARRA - Race-to-the-Top Incentive Grants, Recovery Act			<u>265,925</u>	<u>257,476</u>
Total U.S. Department of Education			<u>1,142,414</u>	<u>1,131,089</u>
Total Federal Awards Receipts and Expenditures			<u>\$1,651,900</u>	<u>\$1,653,215</u>

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (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 programs that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 5, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 5, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 Road
New Concord, Ohio 43762

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the East Muskingum Local School District's, Muskingum County, Ohio (the School District), compliance with the applicable 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, 2014. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

Management's Responsibility

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 5, 2015

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses 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	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> • Child Nutrition Cluster, CFDA # 10.553 and 10.555 • Special Education Cluster (IDEA), CFDA #84.027 and 84.173 	
<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?	No

**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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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 3, 2015**