



**Auditor of State
Betty Montgomery**

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by 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 basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

March 2, 2006

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the East Muskingum Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- In total, net assets of governmental activities decreased \$474,453.
- General revenues accounted for \$14,470,865 in revenue or 80.9 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,426,699 or 19.1 percent of total revenues of \$17,897,564.
- Total assets of governmental activities decreased by \$247,141. This decrease is due to a decrease in cash and cash equivalents and intergovernmental receivable in the amount of \$3,544,158 and \$1,521,985, respectively. These decreases are largely attributed to the completion of the Ohio School Facilities project. These decreases are offset by an increase in capital assets of \$4,787,283, attributed to the completion of the Ohio School Facilities project. Total liabilities of governmental activities increased by \$227,312. The majority of this increase is due an increase in deferred revenue in the amount of \$418,447.
- The School District had \$18,372,017 in expenses related to governmental activities; only \$3,426,699 of these expenses were offset by program specific charges for services, grants or contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$14,470,865 were not adequate to provide for these programs.
- The School District has three major funds; the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$14,581,225 in revenues and \$14,834,688 in expenditures. The General Fund's balance decreased \$241,369. The Permanent Improvement Capital Projects Fund had \$577,925 in revenues and \$2,721,973 in expenditures and the fund balance decreased \$2,144,048. The Classroom Facilities Capital Projects Fund had \$1,547,843 in revenues and \$3,258,597 in expenditures and the fund balance decreased \$1,710,754.

Using this Basic Financial Statements Report

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

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2004-2005 fiscal year?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund.

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

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities		
	2005	2004	Change
Assets			
Current and Other Assets	\$11,096,574	\$16,130,998	(\$5,034,424)
Capital Assets	33,027,236	28,239,953	4,787,283
Total Assets	<u>44,123,810</u>	<u>44,370,951</u>	<u>(247,141)</u>
Liabilities			
Long-Term Liabilities	(9,185,301)	(9,583,127)	397,826
Other Liabilities	(6,209,452)	(5,584,314)	(625,138)
Total Liabilities	<u>(15,394,753)</u>	<u>(15,167,441)</u>	<u>(227,312)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	27,050,851	21,159,740	5,891,111
Restricted	1,652,391	7,862,665	(6,210,274)
Unrestricted	25,815	181,105	(155,290)
Total Net Assets	<u>\$28,729,057</u>	<u>\$29,203,510</u>	<u>(\$474,453)</u>

Total assets decreased \$247,141. Capital assets increased by \$4,787,283 due to an increase in capital acquisitions related to the Ohio School Facilities Commission project and renovations to Pike Elementary. The increase in capital assets is offset by a decrease in cash and cash equivalents of \$3,544,158 and intergovernmental receivables of \$1,521,985 as a result of the completion of the Ohio School Facilities Commission project.

Long-term liabilities decreased \$397,826 which is largely attributed to the decrease in bonds payable of \$255,000.

Other liabilities increased by \$625,138. This increase is largely attributed to an increase in deferred revenue of \$418,447 due to an increase in property taxes receivable. The remaining increase can be attributed to decreases in accrued wages and benefits and accounts payable in the amounts of \$90,762 and \$90,355, respectively.

Net assets decreased \$474,453. Restricted net assets decreased \$6,210,274. This decrease can be attributed to a portion of the school facilities building projects reaching completion.

Table 2 shows the changes in net assets for fiscal year 2005.

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues:		
Charges for Services	\$1,304,585	\$981,908
Operating Grants, and Contributions	2,061,948	1,957,788
Capital Grants, Contributions, and Interest	60,166	83,948
Total Program Revenues	<u>3,426,699</u>	<u>3,023,644</u>
General Revenues:		
Property Taxes	5,291,823	5,123,224
Grants and Entitlements	8,791,739	8,762,598
Other General Revenues	387,303	455,482
Total General Revenues	<u>14,470,865</u>	<u>14,341,304</u>
Total Revenues	<u>17,897,564</u>	<u>17,364,948</u>
Program Expenses		
Instruction:		
Regular	8,490,919	8,124,144
Special	1,811,265	1,696,118
Vocational	221,967	242,668
Support Services:		
Pupils and Instructional Staff	962,075	941,652
Board of Education, Administration and Fiscal	2,326,348	2,174,933
Operation and Maintenance of Plant	1,614,482	1,483,105
Pupil Transportation	1,098,662	1,169,790
Central	131,080	119,925
Operation of Non-Instructional Services	786,236	826,077
Extracurricular Activities	581,871	496,019
Interest	347,112	355,164
Total Expenses	<u>18,372,017</u>	<u>17,629,595</u>
Change in Net Assets	<u>(\$474,453)</u>	<u>(\$264,647)</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 overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 30 percent of revenues for governmental activities for East Muskingum Local School District in fiscal year 2005.

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental effect on the School District. While the School District operates on a very tight budget, revenue sources are not projected to keep pace with expenses.

During fiscal year 2005, charges for services increased by \$322,677 due to the School District offering open enrollment for the first time. This increase in charges for services is offset by an increase in instructional expenditures due the School District negotiating a 2% base increase for certified and classified salaries.

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

Table 3
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:				
Regular	\$8,490,919	\$7,677,989	\$8,124,144	\$7,569,880
Special	1,811,265	673,613	1,696,118	560,683
Vocational	221,967	162,731	242,668	179,535
Support Services:				
Pupils and Instructional Staff	962,075	761,545	941,652	766,636
Board of Education, Administration and Fiscal	2,326,348	2,297,105	2,174,933	2,171,547
Operation and Maintenance of Plant	1,614,482	1,576,431	1,483,105	1,474,208
Pupil Transportation	1,098,662	1,053,645	1,169,790	1,125,526
Central	131,080	106,204	119,925	88,802
Operation of Non-Instructional Services	786,236	(3,415)	826,077	90,292
Extracurricular Activities	581,871	292,358	496,019	223,378
Interest	347,112	347,112	355,164	355,164
Total Expenses	<u>\$18,372,017</u>	<u>\$14,945,318</u>	<u>\$17,629,595</u>	<u>\$14,605,651</u>

In November of 2000, the residents of the School District passed a \$7,443,000 Bond Levy as part of the Ohio School Facilities Construction Program. The School District built a new middle school which was opened in the fall of 2003. Construction of additions for the high school and New Concord Elementary were also completed by fall of 2003. Renovations and improvements to the high school, New Concord Elementary and the existing middle school which will be an intermediate school housing grades 3, 4, and 5 were completed by fiscal year end 2005. The total construction project amounted to \$28,737,357, with the local and State share being \$7,443,000 and \$21,294,357, respectively.

Instructional programs comprise approximately 57 percent of total governmental program expenses. Of the instructional expenses, approximately 81 percent is for regular instruction, 17 percent for special instruction, and 2 percent for vocational and other instructions.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 76.7 percent of the School District's activities being supported through taxes and grants and entitlements.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$19,418,348 and expenditures of \$23,563,246. The net change in fund balance for the year was most significant in the Permanent Improvement Capital Projects Fund, a decrease of \$2,144,048. The remaining governmental funds reflect a decrease of \$1,987,906. Despite the decrease the School District was still able to meet the School District obligations.

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Budgeting Highlights

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

During the course of fiscal year 2005, the School District amended its General Fund appropriations, but not significantly.

For the General Fund, budget basis revenues were \$409,184 above final estimates of \$14,299,256. Of this difference, most was due to conservative tax estimates, based on the County Auditor's Certification, and conservative state funding estimates.

The School District's ending General Fund balance was \$1,376,520.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$33,027,236 invested in land, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets at June 30

	Governmental Activities	
	2005	2004
Land and Land Improvements	\$144,115	\$144,115
Construction in Progress	0	14,186,332
Buildings and Improvements	31,537,926	12,526,910
Vehicles	650,046	774,558
Furniture, Fixtures and Equipment	695,149	608,038
Totals	\$33,027,236	\$28,239,953

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

Debt

At June 30, 2005, the School District had \$6,757,799 in general obligation bonds outstanding, including \$129,799 in accumulated accretion, with \$265,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The School District had capital leases outstanding at June 30, 2005 in the amount of \$111,456 with \$88,837 due in one year. See Note 15 for more detailed information about the School District's debt.

East Muskingum Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Set-asides

For fiscal year 2005, Ohio Law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2005, this amounted to \$278,816 for each set aside. For fiscal year 2005, the School District had qualifying disbursements or offsets exceeding the \$278,816 requirement for textbooks and capital maintenance. See Note 19 for additional information about the School District's set-asides.

Economic Factors

East Muskingum Local School District ended fiscal year 2005 with a negative cash flow. This is primarily due to the construction costs incurred for the Ohio School Facilities Construction Program and the renovation of Pike Elementary paid for through the Permanent Improvement Capital Projects Fund. Future revenues are affected by the elimination of the three year averaging for ADM, accelerated phase out of personal property tax on inventory, state deduction for fees from rollback and homestead funds and the reduction of the bus subsidy by 52 percent.

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

Contacting the School District's Financial Management

This financial report is designed to provide our 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 Christine L. White, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at cwhite@east-muskingum.k12.oh.us.

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East Muskingum Local School District, Ohio
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,685,214
Cash and Cash Equivalents in Segregated Accounts	501
Cash and Cash Equivalents with Escrow Agents	164,730
Accounts Receivable	235
Intergovernmental Receivable	162,104
Inventory Held for Resale	5,709
Materials and Supplies Inventory	103,227
Prepaid Items	179,429
Property Taxes Receivable	5,579,834
Revenue in Lieu of Taxes Receivable	215,591
Nondepreciable Capital Assets	144,115
Depreciable Capital Assets, Net	32,883,121
Total Assets	44,123,810
 Liabilities	
Accounts Payable	197,081
Accrued Wages and Benefits Payable	1,502,176
Matured Compensated Absences Payable	73,082
Contracts Payable	175,177
Longevity Benefits Payable	119,911
Accrued Interest Payable	23,693
Intergovernmental Payable	407,905
Vacation Benefits Payable	36,509
Retainage Payable	164,730
Claims Payable	178,168
Deferred Revenue	3,331,020
Long-Term Liabilities:	
Due Within One Year	450,568
Due In More Than One Year	8,734,733
Total Liabilities	15,394,753
 Net Assets	
Invested in Capital Assets, Net of Related Debt	27,050,851
Restricted for:	
Capital Projects	779,008
Debt Service	481,424
Other Purposes	391,959
Unrestricted	25,815
Total Net Assets	\$28,729,057

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net Revenue (Expense) and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$8,490,919	\$501,530	\$311,400	\$0	(\$7,677,989)
Special	1,811,265	0	1,137,652	0	(673,613)
Vocational	221,967	0	59,236	0	(162,731)
Support Services:					
Pupils	363,266	0	14,135	0	(349,131)
Instructional Staff	598,809	0	186,395	0	(412,414)
Board of Education	44,071	0	0	0	(44,071)
Administration	1,928,376	0	29,243	0	(1,899,133)
Fiscal	353,901	0	0	0	(353,901)
Operation and Maintenance of Plant	1,614,482	8,375	0	29,676	(1,576,431)
Pupil Transportation	1,098,662	0	14,527	30,490	(1,053,645)
Central	131,080	0	24,876	0	(106,204)
Operation of Non-Instructional Services:					
Food Service Operations	783,569	505,167	282,903	0	4,501
Other Non-Instructional Services	2,667	0	1,581	0	(1,086)
Extracurricular Activities	581,871	289,513	0	0	(292,358)
Interest	347,112	0	0	0	(347,112)
Total Governmental Activities	<u>\$18,372,017</u>	<u>\$1,304,585</u>	<u>\$2,061,948</u>	<u>\$60,166</u>	<u>(14,945,318)</u>

General Revenues

Property Taxes Levied for:		
General Purposes		4,267,247
Capital Outlay		467,452
Debt Service		472,369
Other Purposes		84,755
Grants and Entitlements not Restricted to Specific Programs		8,791,739
Investment Earnings		127,919
Payment in Lieu of Taxes		151,290
Gain on Sale of Capital Assets		10,710
Miscellaneous		97,384
Total General Revenues		<u>14,470,865</u>
Change in Net Assets		(474,453)
Net Assets Beginning of Year		<u>29,203,510</u>
Net Assets End of Year		<u>\$28,729,057</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2005

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,708,061	\$690,446	\$763,071	\$776,519	\$3,938,097
Cash and Cash Equivalents in Segregated Accounts	0	0	0	501	501
Accounts Receivable	0	0	0	235	235
Intergovernmental Receivable	38,309	0	0	123,795	162,104
Inventory Held for Resale	0	0	0	5,709	5,709
Materials and Supplies Inventory	101,549	0	0	1,678	103,227
Prepaid Items	169,522	0	0	9,907	179,429
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	8,414	0	0	0	8,414
Cash and Cash Equivalents with Escrow Agents	10,806	70,001	83,923	0	164,730
Property Taxes Receivable	4,489,588	493,321	0	596,925	5,579,834
Revenue in Lieu of Taxes Receivable	175,007	21,976	0	18,608	215,591
Total Assets	\$6,701,256	\$1,275,744	\$846,994	\$1,533,877	\$10,357,871
Liabilities					
Accounts Payable	\$92,726	\$71,831	\$0	\$19,694	\$184,251
Accrued Wages and Benefits Payable	1,374,404	0	0	127,772	1,502,176
Matured Compensated Absences Payable	69,127	0	0	3,955	73,082
Contracts Payable	116,028	59,149	0	0	175,177
Retirement Longevity/ Service Benefit	112,217	0	0	7,694	119,911
Intergovernmental Payable	367,934	0	0	39,971	407,905
Retainage Payable	10,806	70,001	83,923	0	164,730
Deferred Revenue	2,999,363	331,979	0	416,624	3,747,966
Total Liabilities	5,142,605	532,960	83,923	615,710	6,375,198
Fund Balances					
Reserved for Encumbrances	167,881	254,711	27,087	41,684	491,363
Reserved for Unclaimed Monies	1,052	0	0	0	1,052
Reserved for Budget Stabilization	7,362	0	0	0	7,362
Reserved for Property Taxes	1,501,357	161,342	0	202,750	1,865,449
Unreserved:					
Undesignated, Reported in:					
General Fund	(119,001)	0	0	0	(119,001)
Special Revenue Funds	0	0	0	374,293	374,293
Debt Service Funds	0	0	0	299,440	299,440
Capital Projects Funds	0	326,731	735,984	0	1,062,715
Total Fund Balances	1,558,651	742,784	763,071	918,167	3,982,673
Total Liabilities and Fund Balances	\$6,701,256	\$1,275,744	\$846,994	\$1,533,877	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 33,027,236

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

Property Taxes	383,365	
Grants	33,581	416,946

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 547,705

Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds. (23,693)

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(6,628,000)	
Accretion on Bonds	(129,799)	
Other Post-Employment Benefits Payable	(1,354,738)	
Vacation Benefits Payable	(36,509)	
Compensated Absences	(961,308)	
Capital Leases	(111,456)	(9,221,810)

Net Assets of Governmental Activities \$28,729,057

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$4,271,796	\$468,369	\$0	\$563,849	\$5,304,014
Payment in Lieu of Taxes	125,007	14,618	0	11,665	151,290
Intergovernmental	9,502,068	52,490	1,518,167	1,323,176	12,395,901
Interest	80,316	39,453	29,676	8,150	157,595
Tuition and Fees	499,731	0	0	0	499,731
Extracurricular Activities	0	0	0	289,513	289,513
Rentals	8,375	0	0	0	8,375
Charges for Services	2,786	0	0	505,167	507,953
Contributions and Donations	3,468	0	0	0	3,468
Miscellaneous	87,678	2,995	0	9,835	100,508
Total Revenues	14,581,225	577,925	1,547,843	2,711,355	19,418,348
Expenditures					
Current:					
Instruction:					
Regular	7,531,686	383,724	0	283,314	8,198,724
Special	1,295,107	0	0	429,829	1,724,936
Vocational	213,725	0	0	0	213,725
Support Services:					
Pupils	332,841	0	0	14,206	347,047
Instructional Staff	389,872	0	0	190,992	580,864
Board of Education	31,097	0	0	0	31,097
Administration	1,689,617	0	0	30,191	1,719,808
Fiscal	336,497	11,039	0	13,753	361,289
Operation and Maintenance of Plant	1,444,573	44,980	0	126,337	1,615,890
Pupil Transportation	1,033,355	122,853	0	108	1,156,316
Central	105,567	0	0	20,425	125,992
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	793,892	793,892
Other Non-Instructional Services	0	908	0	1,759	2,667
Extracurricular Activities	209,245	0	0	284,424	493,669
Capital Outlay	129,090	2,158,469	3,258,597	0	5,546,156
Debt Service:					
Principal Retirement	85,757	0	0	255,000	340,757
Interest and Fiscal Charges	6,659	0	0	303,758	310,417
Total Expenditures	14,834,688	2,721,973	3,258,597	2,747,988	23,563,246
Excess of Revenues Over (Under) Expenditures	(253,463)	(2,144,048)	(1,710,754)	(36,633)	(4,144,898)
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	12,094	0	0	850	12,944
Net Change in Fund Balances	(241,369)	(2,144,048)	(1,710,754)	(35,783)	(4,131,954)
Fund Balances Beginning of Year	1,800,020	2,886,832	2,473,825	953,950	8,114,627
Fund Balances End of Year	<u>\$1,558,651</u>	<u>\$742,784</u>	<u>\$763,071</u>	<u>\$918,167</u>	<u>\$3,982,673</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Reconciliation of the Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds (\$4,131,954)

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

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

Fixed Asset Additions	5,714,685	
Current Year Depreciation	<u>(925,168)</u>	4,789,517

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain has been reported for the disposal. These amounts are used as a reconciling item between the statement of activities and the fund financial statements.

Gain on Sale of Capital Assets	10,710	
Proceeds from Sale of Capital Assets	<u>(12,944)</u>	(2,234)

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

Property Taxes	(12,191)	
Tuition	(987)	
Accounts Receivable	(3,124)	
Grants	<u>(1,515,192)</u>	(1,531,494)

Some capital assets were financed through capital leases. Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

85,757

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

255,000

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

725

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

(37,420)

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:

Pension Obligation	146,715	
Longevity Benefits Payable	26,341	
Vacation Benefits Payable	6,858	
Compensated Absences	<u>68,148</u>	248,062

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

(150,412)

Change in Net Assets of Governmental Activities

(\$474,453)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$3,908,854	\$4,364,992	\$4,364,992	\$0
Payment in Lieu of Taxes	113,385	113,385	112,787	(598)
Intergovernmental	9,538,712	9,558,814	9,502,386	(56,428)
Interest	40,000	40,000	80,316	40,316
Tuition and Fees	91,413	90,399	517,883	427,484
Rentals	8,900	8,900	8,415	(485)
Charges for Services	3,400	3,400	2,786	(614)
Contributions and Donations	0	0	3,468	3,468
Miscellaneous	107,320	119,366	115,407	(3,959)
Total Revenues	13,811,984	14,299,256	14,708,440	409,184
Expenditures				
Current:				
Instruction:				
Regular	7,685,520	8,030,797	7,753,734	277,063
Special	962,895	1,272,790	1,283,632	(10,842)
Vocational	232,787	237,070	231,591	5,479
Support Services:				
Pupils	296,127	347,434	322,943	24,491
Instructional Staff	709,776	399,576	395,959	3,617
Board of Education	53,516	53,516	30,640	22,876
Administration	1,610,912	1,646,961	1,618,148	28,813
Fiscal	328,657	336,795	330,497	6,298
Operation and Maintenance of Plant	1,510,533	1,550,937	1,414,404	136,533
Pupil Transportation	963,828	1,055,255	1,039,388	15,867
Central	120,806	117,787	107,841	9,946
Extracurricular Activities	197,650	197,217	196,360	857
Capital Outlay	2,900	2,900	2,256	644
Total Expenditures	14,675,907	15,249,035	14,727,393	521,642
Excess of Revenues Under Expenditures	(863,923)	(949,779)	(18,953)	930,826
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	300	300	12,094	11,794
Refund of Prior Year Expenditures	0	0	752	752
Transfers Out	(375,000)	0	0	0
Total Other Financing Sources (Uses)	(374,700)	300	12,846	12,546
Net Change in Fund Balance	(1,238,623)	(949,479)	(6,107)	943,372
Fund Balance Beginning of Year	1,146,221	1,146,221	1,146,221	0
Prior Year Encumbrances Appropriated	236,406	236,406	236,406	0
Fund Balance End of Year	\$144,004	\$433,148	\$1,376,520	\$943,372

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fund Net Assets
Self-Insurance Internal Service Fund
June 30, 2005

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$738,703</u>
 Total Assets	 <u>738,703</u>
 Current Liabilities	
Accounts Payable	12,830
Claims Payable	<u>178,168</u>
 Total Liabilities	 <u>190,998</u>
 Net Assets	
Unrestricted	<u><u>\$547,705</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,030,348
Operating Expenses	
Purchased Services	200,244
Claims	1,980,516
Total Operating Expenses	2,180,760
Change in Net Assets	(150,412)
Net Assets Beginning of Year	698,117
Net Assets End of Year	\$547,705

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,030,348
Cash Payments for Goods and Services	(187,414)
Cash Payments for Claims	(1,940,662)
Net Decrease in Cash and Cash Equivalents	(97,728)
Cash and Cash Equivalents Beginning of Year	836,431
Cash and Cash Equivalents End of Year	\$738,703
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$150,412)
Changes in Assets and Liabilities	
Increase in Accounts Payable	12,830
Increase in Claims Payable	39,854
Net Cash Used for Operating Activities	(\$97,728)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$31,441</u></u>
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Liabilities

Due to Students	<u><u>\$31,441</u></u>
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See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1958 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 95 classified employees and 155 certificated full-time teaching personnel who provide services to 2,152 students and other community members. The School District currently operates 6 instructional buildings, 2 administrative buildings, and 4 garage/storage buildings.

Reporting Entity

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

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

In February of 2004, the Board of Education, by resolution, created the East Muskingum Digital Academy pursuant to the laws of the State of Ohio. The digital academy is a legally separate entity which is governed by a five member board. The School District appoints four members and Tri-Rivers Educational Computer Association appoints one member. The School District is able to impose its will on the digital academy. The School District can suspend the digital academy's operations for any of the following reasons: 1) The digital academy's failure to meet student performance requirements stated in its contract with the School District, 2) The digital academy's failure to meet generally accepted standards of fiscal management, 3) The digital academy's violation of any provisions of the contract with the School District or applicable state or federal law, and 4) Other good cause. The digital academy was created to offer a distance learning-based curriculum to school-age children residing in the East Muskingum Local School District. The digital academy board may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. No significant financial activity occurred for the digital academy during fiscal year 2005. The digital academy will be presented as a discretely presented component unit once it begins operations.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

The School District participates in two organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Mid-East Ohio Career and Technology Centers, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio School Plan. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

B. Fund Accounting

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

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

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

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

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

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

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

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

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds that are not otherwise invested, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

The School District has a segregated bank account for monies held separate from the School District's central bank account. This interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

During fiscal year 2005, the School District held no investments.

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 2005 amounted to \$80,316, which includes \$33,522 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, 2005, 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, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. 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 and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-50 years
Furniture, Fixtures and Equipment	5-15 years
Vehicles	3-10 years

I. Interfund Balances

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

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and revenues restricted for the purchase of buses. See Note 19 for additional information regarding set asides. Restricted assets also include cash and cash equivalents with escrow agents held for contract retainage.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

K. Compensated Absences

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

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

The entire compensated absences liabilities are 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."

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Activity

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

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

N. Fund Balance Reserves

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

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

O. Net Assets

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

The government-wide statement of net assets report \$1,652,391 of restricted net assets, of which \$1,411,711 is restricted by enabling legislation

Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

P. Operating Revenues and Expenses

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

Q. Extraordinary and Special Items

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.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

S. Budgetary Data

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

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

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

Note 3 – Changes in Accounting Principle

For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/ Expenses and Liabilities by Cost Sharing Employers", and early-implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 6 "Deposits and Investments" for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/ expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation did not affect the fund balances of governmental funds, and had no effect on net assets.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4 - Accountability

The following funds had a deficit fund balance at June 30, 2005.

<u>Special Revenue Funds</u>	<u>Deficit Fund Balances</u>
Ohio Reads Grant	\$38
Title II-A	405

The deficit fund balances in the special revenue funds are the result of the recognition of payables in accordance with generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance

GAAP Basis	(\$241,369)
Net Adjustment for Revenue Accruals	127,967
Net Adjustment for Expenditure Accruals	472,588
Prepaid Items - Beginning of Fiscal Year	154,977
Prepaid Items - End of Fiscal Year	(169,522)
Adjustment for Encumbrances	<u>(350,748)</u>
Budget Basis	<u><u>(\$6,107)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
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, \$4,622,927 of the School District's bank balance of \$4,959,463 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged 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.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2004, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Tangible personal property tax revenues received in calendar 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, personal property and public utility taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations. The amount available as an advance at June 30, 2005, was \$1,865,449. \$1,501,357 was available in the General Fund, \$30,671 in the Classroom Facilities Maintenance Special Revenue Fund, \$172,079 in the Debt Service Fund, and \$161,342 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2004 was \$1,594,353 in the General Fund, \$32,010 in the Classroom Facilities Special Revenue Fund, \$213,198 in the Debt Service Fund, and \$170,584 in the Permanent Improvement Capital Projects Fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$167,498,260	86.44%	\$171,491,180	84.93%
Public Utility Personal	14,577,840	7.52%	18,603,400	9.21%
Tangible Personal Property	11,713,316	6.04%	11,822,705	5.86%
Total	\$193,789,416	100.00%	\$201,917,285	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$39.81		 \$39.81	

Note 8 - Receivables

Receivables at June 30, 2005, consisted of property taxes, accounts (tuition and miscellaneous), intergovernmental grants, revenue in lieu of taxes, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
CAFS Reimbursement	\$22,786
Tuition	15,523
Student Intervention	13,735
Teacher On-Loan Project	13,382
Title VI-B	41,192
Title I	38,475
Title II-A	17,011
Total	\$162,104

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Nondepreciable Capital Assets				
Land	\$144,115	\$0	\$0	\$144,115
Construction in Progress	14,186,332	3,833,054	(18,019,386)	0
Total Non-Depreciable Capital Assets	14,330,447	3,833,054	(18,019,386)	144,115
Depreciable Capital Assets				
Buildings and Improvements	21,212,562	19,696,033	(659,253)	40,249,342
Furniture, Fixtures, and Equipment	1,427,851	21,634	(22,342)	1,427,143
Vehicles	1,703,528	183,350	(58,135)	1,828,743
Total at Historical Cost	24,343,941	19,901,017	(739,730)	43,505,228
Less Accumulated Depreciation				
Buildings and Improvements	(8,685,652)	(685,017)	659,253	(8,711,416)
Furniture, Fixtures, and Equipment	(653,293)	(98,809)	20,108	(731,994)
Vehicles	(1,095,490)	(141,342)	58,135	(1,178,697)
Total Accumulated Depreciation	(10,434,435)	(925,168) *	737,496	(10,622,107)
Depreciable Capital Assets, Net of Accumulated Depreciation	13,909,506	18,975,849	(2,234)	32,883,121
Governmental Activities Capital Assets, Net	\$28,239,953	\$22,808,903	(\$18,021,620)	\$33,027,236

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$334,457
Special	60,658
Vocational	10,379
Support Services:	
Pupils	11,472
Instructional Staff	29,086
Board of Education	12,974
Administration	90,633
Fiscal	7,784
Operation of Maintenance and Plant	66,357
Pupil Transportation	200,459
Central	2,595
Extracurricular	7,004
Food Service Operations	<u>91,310</u>
 Total Depreciation Expense	 <u><u>\$925,168</u></u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District purchased the following coverage:

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

<u>Ohio School Plan - Harcum Schuett Agency</u>		
Fleet Insurance:		
Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	
Comprehensive		actual cash value
Physical Damage		actual cash value
Collision		actual cash value
Building, Personal Property, and Contents	\$51,537,000	
 <u>Ohio School Plan</u>		
General Liability:		
Bodily Injury and Property Damage	\$1,000,000	each occurrence
Fire Damage	\$500,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$2,000,000	
Employment Practices	\$1,000,000	
Aggregate	\$2,000,000	
 <u>Handschy-Graham-Taylor Agency</u>		
Boiler and Machinery	\$17,784,000	

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

The School District is joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 17)

B. Worker's Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Central Benefits serves as claims servicer for medical/surgical coverage and Core Source services as claims servicer for dental coverage. The claims liability of \$178,168 reported in the Internal Service Fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2004 and 2005 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2004	\$138,521	\$1,245,123	\$1,245,330	\$138,314
2005	138,314	1,980,516	1,940,662	178,168

Note 11 - Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees except for the superintendent and treasurer. Upon retirement the superintendent and treasurer are paid for 50 days of unused sick leave.

B. Life Insurance

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

C. Other Post-Employment Benefits Payable

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

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$211,709, \$200,212, and \$167,657, respectively; 42 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$123,107 representing the unpaid contribution for fiscal year 2005, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

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

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$993,823, \$990,458, and \$994,81, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. Contributions for the DC and CP Plans for the fiscal year ended June 30, 2005, were \$9,546 made by the School District and \$10,102 made by plan members. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, there are no employees who have elected Social Security.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions

East Muskingum Local School District, Ohio
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and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. Most STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District this amount equaled \$76,448 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established as \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$99,009 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 - Capitalized Leases

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30,	Governmental Activities
2006	\$92,416
2007	16,187
2008	7,052
2009	668
Total Minimum Lease Payments	116,323
Less: Amount Representing Interest	(4,867)
Present Value of Minimum Lease Payments	\$111,456

The copiers and fitness equipment have been originally capitalized in the amount of \$285,418, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation as of June 30, 2005 was \$55,377, leaving a current book value of \$230,041. Principal payments in fiscal year 2005 totaled \$85,757 in the governmental funds.

Note 15 - Long-Term Obligations

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

	Outstanding 06/30/04	Additions	Reductions	Outstanding 06/30/05	Due in One Year
Governmental Activities:					
2001 School Facilities Current Interest Serial Bonds - 4.85%	\$3,820,000	\$0	\$255,000	\$3,565,000	\$265,000
2001 School Facilities Current Interest Term Bonds - 5%	2,850,000	0	0	2,850,000	0
2001 School Facilities Capital Appreciation Bonds	213,000	0	0	213,000	0
Accumulated Accretion	92,379	37,420	0	129,799	0
Total General Obligation Bonds	6,975,379	37,420	255,000	6,757,799	265,000
Capital Leases	197,213	0	85,757	111,456	88,837
Compensated Absences Payable	1,029,456	24,471	92,619	961,308	58,681
Other Post-Employment/Service Benefits Payable	1,381,079	138,341	164,682	1,354,738	38,050
Total Long-Term Obligations	\$9,583,127	\$200,232	\$598,058	\$9,185,301	\$450,568

Compensated absences and the other post-employment/service benefits termination benefits payable will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service, Miscellaneous State Grants, Miscellaneous Federal Grants, Title I, and Title II-A Special Revenue Funds. The capital leases will be paid from the General Fund.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

On April 19, 2001, the School District issued \$7,443,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new buildings. The School District must maintain a maintenance plan and submit it to the Ohio School Facilities Commission every five years for the term of the bond. As of June 30, 2005, the School District had \$763,071 in unspent bond proceeds in the Classroom Facilities Capital Projects Fund.

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

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

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

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

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

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

The capital appreciation bonds mature December 1, 2009 and 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$610,000. The fiscal year 2005 accretion amount is \$37,420.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Principal and interest payments to retire general obligation debt outstanding at June 30, 2005 are as follows:

Year	Principal	Interest	Total
2006	\$265,000	\$294,265	\$559,265
2007	270,000	284,233	554,233
2008	280,000	273,502	553,502
2009	295,000	261,929	556,929
2010	112,649	448,306	560,955
2011-2015	1,410,351	1,371,474	2,781,825
2016-2020	2,005,000	754,153	2,759,153
2021-2024	1,990,000	205,250	2,195,250
Total	<u>\$6,628,000</u>	<u>\$3,893,112</u>	<u>\$10,521,112</u>

The School District's overall legal debt margin was \$11,843,996, with an unvoted debt margin of \$201,917 at June 30, 2005.

Note 16 - Jointly Governed Organizations

A. *Tri-Rivers Educational Computer Association (TRECA)*

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2005, the School District paid \$82,752 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

B. *Mid-East Ohio 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 boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2005, the School District made a \$44 payment to the Center. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 17 - Insurance Purchasing Pools

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

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

B. Ohio School Plan

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

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

East Muskingum Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve set-aside.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute. The amount of beginning carry-over offsets/excess disbursements in the capital improvement reserve has been decreased by \$3,486 based upon further analysis of prior expenditures.

	Budget Stabilization Reserve	Capital Improvements Reserve	Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2004	\$10,889	\$0	\$0
Current Year Set-aside Requirement	0	278,816	278,816
Qualifying Disbursements	3,527	608,433	407,124
Current Year Requirement less Qualifying Disbursements	(3,527)	(329,617)	(128,308)
Beginning Carryover Offsets/Excess Disbursements	0	5,565,806	273,506
Current Year Offsets/Excess Disbursements	0	704,130	0
Total Available as Offsets/Excess Disbursements	0	6,269,936	273,506
Current Year Application of Offsets/Excess Disbursements	0	0	(128,308)
Offsets/Excess Disbursements to be Carried Forward to Future Years	0	6,269,936	401,814
Set-aside Reserve Balance as of June 30, 2005	\$7,362	\$0	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to or below zero. The excess disbursements in the textbook set-aside may be used to reduce the set-aside requirements of future years. The excess offsets in the capital set-aside may be used to reduce the set-aside requirements in future years.

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. Department of Agriculture</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$75,019	\$0	\$75,019
School Breakfast Program	048835-05PU-2004	10.553	3,956		3,956	
	048835-05PU-2005	10.553	13,491		13,491	
Total School Breakfast Program			17,447	0	17,447	0
National School Lunch Program	048835-LLP4-2004	10.555	45,678		45,678	
	048835-LLP4-2005	10.555	159,939		159,939	
Total National School Lunch Program			205,617	0	205,617	0
Total U.S. Department of Agriculture - Child Nutrition Cluster			223,064	75,019	223,064	75,019
<u>U.S. Department of Education</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	048835-C1S1-2004	84.010	18,639		48,997	
	048835-C1S1-2005	84.010	258,094		248,103	
Total Title I Grants to Local Educational Agencies			276,733	0	297,100	0
Special Education Grants to States (Title VI-B)	048835-6BSF-2004	84.027	34,217		66,842	
	048835-6BSF-2003	84.027	299,176		281,289	
Total Special Education Grants to States			333,393	0	348,131	0
Safe and Drug Free Schools and Communities States Grant	048835-DRS1-2005	84.186	10,922		10,922	
Innovative Education Program Strategies Grant (Title VI)	048835-C2S1-2004	84.298	(129)		120	
	048835-C2S1-2005	84.298	4,313		2,572	
Total Innovative Education Program Strategies Grants			4,184	0	2,692	0
Education Technology State Grants (Title II-D)	048835-TJS1-2004	84.318	(1,950)		245	
	048835-TJS1-2005	84.318	13,379		12,762	
Total Education Technology State Grants			11,429	0	13,007	0
Improving Teacher Quality State Grants (Title II-A)	048835-TRS1-2004	84.367	23,049		29,966	
	048835-TRS1-2005	84.367	101,681		98,851	
Total Improving Teacher Quality State Grants			124,730	0	128,817	0
Total U.S. Department of Education			761,391	0	800,669	0
<u>U.S. Department of Health and Human Services</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program	N/A	93.767	1,651		1,651	
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	21,009		21,009	
Total U.S. Department of Health and Human Services			22,660	0	22,660	0
Total Federal Awards Receipts and Expenditures			<u>\$1,007,115</u>	<u>\$75,019</u>	<u>\$1,046,393</u>	<u>\$75,019</u>

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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

NOTE C -- MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON 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 43762-9702

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
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www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 2, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of East Muskingum Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 2, 2006

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States – Title VIB – CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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EAST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2006**