



Dave Yost • Auditor of State

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the School District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2014, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

January 23, 2014

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East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

The discussion and analysis of the East Muskingum Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year-ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2013 are as follows:

- In total, net position of governmental activities decreased \$1,413,063.
- General revenues accounted for \$16,630,080 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,023,601 or 19 percent of total revenues of \$20,653,681.
- Capital assets decreased \$1,191,195 primarily due to current year depreciation expense which was offset by capital asset acquisitions.
- The School District had \$22,066,744 in expenses related to governmental activities; only \$4,023,601 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) in the amount of \$16,630,080 were not adequate enough to provide for these programs.

Using this Basic Financial Statements Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the School District, the General Fund and the Permanent Improvement Levy Capital Projects Fund are the only major funds for fiscal year 2013.

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While these documents contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2012-2013 fiscal year?"

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds.

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

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

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

East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

Table 1 - Net Position

	Governmental Activities		
	2013	2012	Change
Assets			
Current and Other Assets	\$18,069,025	\$19,005,896	(\$936,871)
Capital Assets	24,431,011	25,622,206	(1,191,195)
Total Assets	42,500,036	44,628,102	(2,128,066)
Liabilities			
Long-Term Liabilities	6,679,369	7,134,961	(455,592)
Other Liabilities	3,151,602	2,535,673	615,929
Total Liabilities	9,830,971	9,670,634	160,337
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current			
Year Operations	5,030,016	5,883,870	(853,854)
Payment in Lieu of Taxes not Levied to Finance Current			
Year Operations	16,619	38,105	(21,486)
Total Deferred Inflows of Resources	5,046,635	5,921,975	(875,340)
Net Position			
Net Investment in Capital Assets	19,252,924	20,161,290	(908,366)
Restricted	2,876,753	2,731,780	144,973
Unrestricted	5,492,753	6,142,423	(649,670)
Total Net Position	\$27,622,430	\$29,035,493	(\$1,413,063)

Total assets decreased by \$2,128,066. Capital assets decreased \$1,191,195 due to current year depreciation expense exceeding current year capital asset additions. In addition, property taxes receivable decreased in the amount of \$1,418,310. This decrease in property taxes is due to the outcome of a public utility's taxable values appeal case along with a change in the timing of property tax collection dates by the Muskingum County Auditor in the current fiscal year. These decreases are offset by minimal increases in cash and cash equivalents and intergovernmental receivables.

Total liabilities increased \$160,337 even though the largest component of liabilities, long-term liabilities, decreased by \$455,592. The decrease in long-term liabilities is the result of the School District making required debt payments on outstanding bonds and loans. The increase in other liabilities is due to an increase in accounts payable and increases in salary related liabilities.

Decreases in deferred inflows of resources are due to the decrease in property taxes receivable as explained above.

Net position decreased \$1,413,063. Net Investment in Capital Assets decreased by \$908,366. This decrease can be attributed primarily to current year depreciation expense. The decrease in unrestricted net position relates to the decrease in property taxes levied for general purposes as discussed above.

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

Table 2 shows the changes in net position for the fiscal year-ended June 30, 2013 and comparisons to fiscal year 2012.

Table 2
Changes in Net Position

	Governmental Activities		
	2013	2012	Change
Revenues			
Program Revenues			
Charges for Services	\$2,092,241	\$2,180,322	(\$88,081)
Operating Grants, Contributions and Interest	1,798,474	2,108,266	(309,792)
Capital Grants and Contributions	132,886	108,010	24,876
	<u>4,023,601</u>	<u>4,396,598</u>	<u>(372,997)</u>
General Revenues			
Property Taxes	6,761,287	8,895,524	(2,134,237)
Payment in Lieu of Taxes	16,620	70,353	(53,733)
Grants and Entitlements	9,657,304	9,566,055	91,249
Investment Earnings	52,861	60,480	(7,619)
Miscellaneous	142,008	144,466	(2,458)
	<u>16,630,080</u>	<u>18,736,878</u>	<u>(2,106,798)</u>
Total Revenues	<u>20,653,681</u>	<u>23,133,476</u>	<u>(2,479,795)</u>
Program Expenses			
Instruction			
Regular	9,748,054	9,297,624	450,430
Special	2,651,823	2,512,032	139,791
Vocational	237,360	218,705	18,655
Student Intervention Services	375,882	414,113	(38,231)
Support Services			
Pupils	468,098	458,486	9,612
Instructional Staff	754,345	891,043	(136,698)
Board of Education	46,291	74,248	(27,957)
Administration	2,135,532	2,024,862	110,670
Fiscal	456,062	448,308	7,754
Operation and Maintenance of Plant	1,866,368	1,880,659	(14,291)
Pupil Transportation	1,339,180	1,308,655	30,525
Central	171,908	137,119	34,789
Food Service Operations	1,088,906	1,112,534	(23,628)
Extracurricular Activities	480,447	479,056	1,391
Interest	246,488	250,203	(3,715)
Total Expenses	<u>22,066,744</u>	<u>21,507,647</u>	<u>559,097</u>
<i>Change in Net Position</i>	(1,413,063)	1,625,829	(3,038,892)
Net Position Beginning of Year	<u>29,035,493</u>	<u>27,409,664</u>	<u>1,625,829</u>
Net Position End of Year	<u>\$27,622,430</u>	<u>\$29,035,493</u>	<u>(\$1,413,063)</u>

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

East Muskingum Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited*

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

During fiscal year 2013, total revenues decreased \$2,479,795. The decrease was due primarily to the aforementioned decreases in property taxes. The amount available as an advance on the August property tax settlement decreased. In addition, property tax revenues decreased during fiscal year 2013 as a result of a decrease in property taxes receivable due to a change in the timing of real estate tax collections from the prior year as previously discussed.

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

Table 3

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Instruction:				
Regular	\$9,748,054	\$8,083,039	\$9,297,624	\$7,281,230
Special	2,651,823	2,092,356	2,512,032	1,981,446
Vocational	237,360	174,434	218,705	155,779
Student Intervention Services	375,882	375,882	414,113	414,113
Support Services:				
Pupils	468,098	468,098	458,486	458,486
Instructional Staff	754,345	397,224	891,043	461,708
Board of Education	46,291	46,291	74,248	74,248
Administration	2,135,532	2,100,300	2,024,862	1,988,341
Fiscal	456,062	453,036	448,308	444,419
Operation and Maintenance of Plant	1,866,368	1,736,759	1,880,659	1,786,098
Pupil Transportation	1,339,180	1,326,837	1,308,655	1,278,126
Central	171,908	161,108	137,119	126,319
Food Service Operations	1,088,906	89,018	1,112,534	120,326
Extracurricular Activities	480,447	292,273	479,056	290,207
Interest	246,488	246,488	250,203	250,203
Total Expenses	<u>\$22,066,744</u>	<u>\$18,043,143</u>	<u>\$21,507,647</u>	<u>\$17,111,049</u>

As shown from the table above, the net cost of services has remained consistent at approximately 80 percent of the total cost of services. Instructional programs have remained consistent at approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 75 percent is for regular instruction, 20 percent for special instruction, 2 percent for vocational, and 3 percent for intervention services instruction, which are the same percentages in comparison to fiscal year 2012.

East Muskingum Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with 81 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,569,342, expenditures of \$21,153,370, and a combined net decrease in fund balances, including other financing source, in the amount of \$421,012. The largest change was in the General Fund, with a decrease in fund balance in the amount of \$519,089 due to a decrease in property tax collections.

Budgeting Highlights

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

For the General Fund, budget basis revenues were \$273,934 below final estimates of \$17,710,130. Of this difference, the majority was due to tuition and fees estimates being higher than final amounts.

The School District's ending General Fund budgetary basis balance was \$138,329 below the final estimate.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$24,431,011 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 9 for more detailed information of the School District's capital assets.

Debt

At June 30, 2013, the School District had \$4,595,000 in general obligation bonds outstanding, with \$365,000 due within one year, and \$297,841 in Energy Conservation Notes, with \$31,753 due within one year.

The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The Energy Conservation Notes were issued for geothermal heating and cooling improvements to the Perry Elementary building. The notes will be fully repaid by fiscal year 2021. See Note 15 for more detail on the School District's debt including the current year refunding.

Economic Factors

Based on the most recent Board-adopted five year forecast, the School District is projecting a \$2,405 positive spending versus revenues beginning in fiscal year 2014. 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.

East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Contacting the School District's Financial Management

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

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East Muskingum Local School District

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,462,762
Cash and Cash Equivalents in Segregated Accounts	525
Accounts Receivable	3,207
Accrued Interest Receivable	6,812
Intergovernmental Receivable	549,999
Payment in Lieu of Taxes Receivable	16,619
Inventory Held for Resale	3,844
Materials and Supplies Inventory	154,831
Prepaid Items	32,209
Property Taxes Receivable	7,838,217
Nondepreciable Capital Assets	150,965
Depreciable Capital Assets, Net	<u>24,280,046</u>
Total Assets	<u>42,500,036</u>
Liabilities	
Accrued Wages and Benefits Payable	1,552,655
Accounts Payable	367,357
Intergovernmental Payable	599,446
Matured Compensated Absences Payable	159,788
Matured Longevity Benefits Payable	232,206
Accrued Interest Payable	18,206
Claims Payable	162,000
Vacation Benefits Payable	59,944
Long-Term Liabilities:	
Due Within One Year	611,853
Due In More Than One Year	<u>6,067,516</u>
Total Liabilities	<u>9,830,971</u>
Deferred Inflows of Resources	
Property Taxes not Levied to Finance Current Year Operations	5,030,016
Payment in Lieu of Taxes not Levied to Finance Current Year Operations	<u>16,619</u>
Total Deferred Inflows of Resources	<u>5,046,635</u>
Net Position	
Net Investment in Capital Assets	19,252,924
Restricted for:	
Capital Projects	1,410,649
Debt Service	556,285
Unclaimed Monies	2,258
State Programs	221
Federal Programs	263,151
Food Service	376,052
Classroom Facilities Maintenance	171,883
Other Purposes	96,254
Unrestricted	<u>5,492,753</u>
Total Net Position	<u><u>\$27,622,430</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Net Expense and Change in Net Position	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$9,748,054	\$1,404,626	\$205,884	\$54,505	(\$8,083,039)
Special	2,651,823	0	559,467	0	(2,092,356)
Vocational	237,360	0	62,926	0	(174,434)
Student Intervention Services	375,882	0	0	0	(375,882)
Support Services:					
Pupils	468,098	0	0	0	(468,098)
Instructional Staff	754,345	0	357,121	0	(397,224)
Board of Education	46,291	0	0	0	(46,291)
Administration	2,135,532	0	35,232	0	(2,100,300)
Fiscal	456,062	0	878	2,148	(453,036)
Operation and Maintenance of Plant	1,866,368	9,147	56,572	63,890	(1,736,759)
Pupil Transportation	1,339,180	0	0	12,343	(1,326,837)
Central	171,908	0	10,800	0	(161,108)
Operation of Non-Instructional Services:					
Food Service Operations	1,088,906	490,294	509,594	0	(89,018)
Extracurricular Activities	480,447	188,174	0	0	(292,273)
Interest	246,488	0	0	0	(246,488)
Total Governmental Activities	<u>\$22,066,744</u>	<u>\$2,092,241</u>	<u>\$1,798,474</u>	<u>\$132,886</u>	<u>(18,043,143)</u>
General Revenues					
Property Taxes Levied for:					
					5,577,927
					566,405
					517,228
					99,727
					16,620
Grants and Entitlements not					
					9,657,304
Restricted to Specific Programs					
					52,861
Investment Earnings					
					142,008
Miscellaneous					
					<u>16,630,080</u>
Total General Revenues					
					(1,413,063)
Change in Net Position					
					<u>29,035,493</u>
Net Position Beginning of Year					
					<u>\$27,622,430</u>
Net Position End of Year					

See accompanying notes to the basic financial statements

East Muskingum Local School District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$5,188,840	\$1,364,896	\$1,302,536	\$7,856,272
Cash and Cash Equivalents in Segregated Accounts	0	0	525	525
Accounts Receivable	450	0	1,302	1,752
Intergovernmental Receivable	30,755	0	519,244	549,999
Accrued Interest Receivable	6,812	0	0	6,812
Inventory Held for Resale	0	0	3,844	3,844
Materials and Supplies Inventory	151,507	0	3,324	154,831
Prepaid Items	27,405	847	3,957	32,209
Interfund Receivable	95,136	0	0	95,136
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	2,258	0	0	2,258
Property Taxes Receivable	6,461,189	658,728	718,300	7,838,217
Payment in Lieu of Taxes Receivable	13,788	1,681	1,150	16,619
Total Assets	\$11,978,140	\$2,026,152	\$2,554,182	\$16,558,474
Liabilities				
Matured Compensated Absences Payable	\$156,364	\$0	\$3,424	\$159,788
Matured Longevity Benefits Payable	225,757	0	6,449	232,206
Accounts Payable	85,701	190,288	91,368	367,357
Accrued Wages and Benefits Payable	1,429,673	0	122,982	1,552,655
Interfund Payable	0	0	95,136	95,136
Intergovernmental Payable	565,257	0	34,189	599,446
Total Liabilities	2,462,752	190,288	353,548	3,006,588
Deferred Inflows of Resources				
Property Taxes not Levied to Finance Current Year Operations	4,145,230	423,534	461,252	5,030,016
Payment in Lieu of Taxes not Levied to Finance Current Year Operations	13,788	1,681	1,150	16,619
Unavailable Revenue	549,103	54,748	354,506	958,357
Total Deferred Inflows of Resources	4,708,121	479,963	816,908	6,004,992
Fund Balances				
Nonspendable:				
Inventories	151,507	0	7,168	158,675
Prepaid Items	27,405	847	3,957	32,209
Unclaimed Monies	2,258	0	0	2,258
Restricted for:				
Food Service Operations	0	0	374,224	374,224
State Grant Expenditures	0	0	221	221
Federal Grant Expenditures	0	0	6,419	6,419
Classroom Facilities Maintenance	0	0	161,825	161,825
Capital Projects	0	1,355,054	0	1,355,054
Debt Service	0	0	520,959	520,959
Other Purposes	0	0	94,878	94,878
Assigned to:				
Purchases on Order	132,770	0	0	132,770
Capital Projects	0	0	250,000	250,000
Other Purposes	58,763	0	0	58,763
Unassigned (Deficit)	4,434,564	0	(35,925)	4,398,639
Total Fund Balances	4,807,267	1,355,901	1,383,726	7,546,894
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$11,978,140	\$2,026,152	\$2,554,182	\$16,558,474

See accompanying notes to the basic financial statements

East Muskingum Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2013*

Total Governmental Fund Balances		\$7,546,894
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		24,431,011
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Grants	290,916	
Property Taxes	660,629	
Interest	6,812	
Total	958,357	958,357
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		1,443,687
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.		(18,206)
Long-term liabilities and vacation benefits payable are not due and payable in the current period and , therefore, are not reported in the funds:		
General Obligation Serial/Term Bonds	(4,595,000)	
Bond Premium	(149,754)	
Energy Conservation Loan	(297,841)	
Capital Leases	(135,492)	
Compensated Absences	(519,564)	
Longevity Benefits Payable	(981,718)	
Vacation Benefits Payable	(59,944)	
Total	(6,739,313)	(6,739,313)
Net Position of Governmental Activities		\$27,622,430

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$5,593,512	\$569,258	\$617,413	\$6,780,183
Payment in Lieu of Taxes	13,789	1,681	1,150	16,620
Intergovernmental	9,716,996	77,886	1,612,200	11,407,082
Interest	49,809	0	270	50,079
Tuition and Fees	1,404,626	0	0	1,404,626
Extracurricular Activities	0	0	188,174	188,174
Rent	9,147	0	0	9,147
Charges for Services	0	0	490,294	490,294
Contributions and Donations	82,584	0	0	82,584
Miscellaneous	137,488	46	3,019	140,553
Total Revenues	17,007,951	648,871	2,912,520	20,569,342
Expenditures				
Current:				
Instruction:				
Regular	8,372,267	359,464	168,762	8,900,493
Special	2,074,955	0	447,914	2,522,869
Vocational	218,237	0	0	218,237
Student Intervention Services	375,675	0	207	375,882
Support Services:				
Pupils	458,651	0	0	458,651
Instructional Staff	319,294	0	361,615	680,909
Board of Education	38,724	0	0	38,724
Administration	1,949,241	0	35,907	1,985,148
Fiscal	415,583	14,166	15,829	445,578
Operation and Maintenance of Plant	1,557,398	58,632	165,318	1,781,348
Pupil Transportation	1,207,379	81,400	0	1,288,779
Central	159,595	0	10,800	170,395
Operation of Non-Instructional Services:				
Food Service Operations	0	0	928,577	928,577
Extracurricular Activities	294,563	0	179,841	474,404
Capital Outlay	163,016	80,839	0	243,855
Debt Service:				
Principal Retirement	72,976	0	385,385	458,361
Interest and Fiscal Charges	12,502	0	168,658	181,160
Total Expenditures	17,690,056	594,501	2,868,813	21,153,370
Excess of Revenues Over (Under) Expenditures	(682,105)	54,370	43,707	(584,028)
Other Financing Source				
Inception of Capital Lease	163,016	0	0	163,016
Net Change in Fund Balances	(519,089)	54,370	43,707	(421,012)
Fund Balances Beginning of Year	5,326,356	1,301,531	1,340,019	7,967,906
Fund Balances End of Year	\$4,807,267	\$1,355,901	\$1,383,726	\$7,546,894

See accompanying notes to the basic financial statements

East Muskingum Local School District
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds		(\$421,012)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Capital Asset Additions - Capital Outlay	334,552	
Current Year Depreciation	(1,456,885)	
Total	(1,122,333)	(1,122,333)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of capital assets.		
		(68,862)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	(18,896)	
Accrued Interest Receivable	3,052	
Intergovernmental	98,728	
Total	82,884	82,884
Inception of a capital lease is reported as an other financing source in the governmental funds, but the inception increases long-term liabilities on the statement of net position.		
		(163,016)
Repayments of principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.		
General Obligation Bonds	355,000	
Energy Conservation Notes	30,385	
Capital Leases	72,976	
Total	458,361	458,361
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued Interest	(78,942)	
Amortization of Bond Premium	13,614	
Total	(65,328)	(65,328)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	(1,878)	
Compensated Absences	68,277	
Longevity Benefits Payable	78,356	
Total	144,755	144,755
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change in net position of the internal service fund is reported with governmental activities.		
		(258,512)
Change in Net Position of Governmental Activities		(\$1,413,063)

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Property Taxes	\$6,076,489	\$6,105,303	\$6,050,832	(\$54,471)
Payment in Lieu of Taxes	13,847	48,000	13,789	(34,211)
Intergovernmental	9,756,499	9,699,075	9,715,304	16,229
Interest	50,244	57,000	50,032	(6,968)
Tuition and Fees	1,410,388	1,505,200	1,404,433	(100,767)
Rentals	9,186	9,847	9,147	(700)
Contributions and Donations	82,934	27,584	82,584	55,000
Miscellaneous	110,542	258,121	110,075	(148,046)
Total Revenues	17,510,129	17,710,130	17,436,196	(273,934)
Expenditures				
Current:				
Instruction:				
Regular	8,325,893	8,325,893	8,235,317	90,576
Special	1,169,642	1,169,642	2,063,035	(893,393)
Vocational	232,172	232,172	220,144	12,028
Student Intervention Services	532,957	532,957	375,675	157,282
Support Services:				
Pupils	424,676	424,676	417,380	7,296
Instructional Staff	1,099,858	1,099,858	373,122	726,736
Board of Education	43,725	43,725	38,920	4,805
Administration	1,840,437	1,840,437	1,849,752	(9,315)
Fiscal	430,045	430,045	416,322	13,723
Operation and Maintenance of Plant	1,715,564	1,715,564	1,671,663	43,901
Pupil Transportation	1,282,991	1,282,991	1,264,100	18,891
Central	82,450	82,450	165,594	(83,144)
Extracurricular Activities	352,515	352,515	306,296	46,219
Debt Service:				
Principal Retirement	72,976	72,976	72,976	0
Interest and Fiscal Charges	12,502	12,502	12,502	0
Total Expenditures	17,618,403	17,618,403	17,482,798	135,605
Net Change in Fund Balance	(108,274)	91,727	(46,602)	(138,329)
Fund Balance Beginning of Year	4,759,196	4,759,196	4,759,196	0
Prior Year Encumbrances Appropriated	181,451	181,451	181,451	0
Fund Balance End of Year	\$4,832,373	\$5,032,374	\$4,894,045	(\$138,329)

See accompanying notes to the basic financial statements

East Muskingum Local School District

Statement of Fund Net Position

Self-Insurance Internal Service Fund

June 30, 2013

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,604,232
Accounts Receivable	<u>1,455</u>
Total Current Assets	<u>1,605,687</u>
Current Liabilities	
Claims Payable	<u>162,000</u>
Net Position	
Unrestricted	<u><u>\$1,443,687</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,603,099
Other	1,455
Total Operating Revenues	2,604,554
Operating Expenses	
Purchased Services	443,365
Claims	2,419,701
Total Operating Expenses	2,863,066
Change in Net Position	(258,512)
Net Position Beginning of Year	1,702,199
Net Position End of Year	\$1,443,687

See accompanying notes to the basic financial statements

East Muskingum Local School District
Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$2,603,099
Cash Payments to Suppliers for Services	(443,365)
Cash Payments for Claims	(2,403,701)
<i>Net Cash Used for Operating Activities</i>	(243,967)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,848,199
<i>Cash and Cash Equivalents End of Year</i>	\$1,604,232
 Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities:	
Operating Loss	(\$258,512)
 Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,455)
Increase in Claims Payable	16,000
<i>Net Cash Used for Operating Activities</i>	(\$243,967)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2013

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$50,713</u></u>
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Liabilities

Due to Students	<u><u>\$50,713</u></u>
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See accompanying notes to the basic financial statements

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East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1958. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 103 classified employees and 173 certificated full-time teaching personnel who provide services to 2,055 students and other community members. The School District currently operates six instructional buildings, two administrative buildings, and four garage/storage buildings.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burden on, the primary government. The School District has no component units.

The School District participates in six organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association (LACA), Mid-East Career and Technology Centers, the Metropolitan Educational Council (MEC), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Ohio Coalition of Equity and Adequacy of School Funding, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District’s accounting policies are described below.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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.

East Muskingum Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

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

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

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

C. Measurement Focus

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

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, payments in lieu of taxes, grants, entitlements, and donations. On the accrual basis, payments from property taxes (see Note 7) and revenue in lieu of taxes (see Note 8) are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, and unavailable revenue. Property and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

E. Cash and Cash Equivalents

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

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

During fiscal year 2013, investments were limited to money market mutual funds and non-negotiable and negotiable certificates of deposits. The money market mutual funds and the non-negotiable certificates of deposit are reported at cost. Investments in negotiable certificates of deposits are reported at fair value based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$49,809, which includes \$21,014 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, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

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

H. Capital Assets

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

East Muskingum Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

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

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

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

I. Restricted Assets

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

J. Compensated Absences

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

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

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Internal Activity

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

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

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

M. Interfund Balances

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

N. Fund Balance

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

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

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

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

O. Net Position

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

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

P. Operating Revenues and Expenses

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

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

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

Note 3 - Changes in Accounting Principles

For 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 61, "The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34", Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53", No. 65, "Items Previously Reported as Assets and Liabilities", and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units presentation and certain disclosure requirements. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the School District's financial statements.

Note 4 - Accountability

The Miscellaneous Federal Grants Special Revenue Fund had a deficit balance at June 30, 2013 in the amount of \$35,600. This deficit is the result of the recognition of accruals 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. The School District will more closely monitor fund balances in the future.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Adjustments to record unreported cash and to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budget basis.
4. Prepaid items are reported on the balance sheet (GAAP basis) but no on the budget basis.
5. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	(\$519,089)
Net Adjustment for Revenue Accruals	265,006
Net Adjustment for Expenditure Accruals	541,148
Beginning of Fiscal Year:	
Unrecorded Cash	6,500
Fair Value Adjustment for Investments	50,709
Prepaid Items	28,718
End of Fiscal Year:	
Fair Value Adjustment for Investments	(56,986)
Prepaid Items	(27,405)
Adjustment for Encumbrances	(335,203)
Budget Basis	<u><u>(\$46,602)</u></u>

Note 6 - Deposits and Investments

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$5,899,331 of the School District's bank balance of \$6,999,331 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

East Muskingum Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

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

Investments

As of June 30, 2013, the School District had investments in negotiable certificates of deposit:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>	<u>Rating</u>	<u>Rating Agency</u>
Negotiable Certificates of Deposit	\$2,570,990	5/15/2014-2/28/2018	100.00%	N/A	N/A

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

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

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

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

Note 7 - Property Taxes

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance, and recognized as revenue at June 30, 2013, was \$1,773,668 in the General Fund, \$31,499 in the Classroom Facilities Special Revenue Fund, \$161,959 in the Bond Retirement Debt Service Fund, and \$180,446 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2012, was \$2,230,988 in the General Fund, \$39,927 in the Classroom Facilities Special Revenue Fund, \$201,111 in the Bond Retirement Debt Service Fund, and \$228,930 in the Permanent Improvement Levy Capital Projects Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second- Half Collections		2013 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$234,418,210	86.33%	\$243,746,100	85.76%
Public Utility Personal	37,105,970	13.67%	40,482,460	14.24%
Total	\$271,524,180	100.00%	\$284,228,560	100.00%
Tax rate per \$1,000 of assessed valuation	\$38.16		\$38.10	

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 8 - Receivables

Receivables at June 30, 2013, consisted of property taxes, intergovernmental grants, accounts, accrued interest, and payment in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$660,629 may not be collected in one year. All other receivables are expected to be received within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<u>Governmental Activities</u>	
Food Service Reimbursement	\$40,926
Title I	260,664
Title II-A	20,016
Race to the Top	159,172
Workers Compensation Refund	30,094
Title VI-B IDEA	36,749
Medicaid Reimbursements	1,692
Miscellaneous Intergovernmental Reimbursements	686
Total	<u><u>\$549,999</u></u>

Payment in Lieu of Taxes

Muskingum County has entered into various enterprise zone agreements. On September 20, 1999, Muskingum County entered into an enterprise zone agreement with Plaskolite Inc. for the purpose of constructing a new manufacturing facility. On May 30, 2000, Muskingum County entered into an enterprise zone agreement with White Castle System, Inc. for the purpose of constructing a processing facility.

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 9 - Capital Assets

Capital assets activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Nondepreciable Capital Assets				
Land	\$144,115	\$0	\$0	\$144,115
Land Improvements	6,850	0	0	6,850
Total Non-Depreciable Capital Assets	<u>150,965</u>	<u>0</u>	<u>0</u>	<u>150,965</u>
Depreciable Capital Assets				
Buildings and Improvements	41,584,703	102,276	0	41,686,979
Furniture, Fixtures, and Equipment	1,557,061	150,876	(148,031)	1,559,906
Vehicles	2,184,912	81,400	(57,704)	2,208,608
Total Depreciable Capital Assets	<u>45,326,676</u>	<u>334,552</u>	<u>(205,735)</u>	<u>45,455,493</u>
Less Accumulated Depreciation				
Buildings and Improvements	(17,543,367)	(1,268,586)	0	(18,811,953)
Furniture, Fixtures, and Equipment	(1,072,601)	(83,441)	82,280	(1,073,762)
Vehicles	(1,239,467)	(104,858)	54,593	(1,289,732)
Total Accumulated Depreciation	<u>(19,855,435)</u>	<u>(1,456,885) *</u>	<u>136,873</u>	<u>(21,175,447)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>25,471,241</u>	<u>(1,122,333)</u>	<u>(68,862)</u>	<u>24,280,046</u>
Governmental Activities Capital Assets, Net	<u>\$25,622,206</u>	<u>(\$1,122,333)</u>	<u>(\$68,862)</u>	<u>\$24,431,011</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$681,219
Special	160,024
Vocational	15,347
Support Services:	
Pupils	41,500
Instructional Staff	48,946
Board of Education	7,567
Administration	141,368
Fiscal	4,044
Operation and Maintenance of Plant	88,362
Pupil Transportation	102,432
Central	1,513
Extracurricular	6,043
Food Service Operations	158,520
Total Depreciation Expense	<u>\$1,456,885</u>

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013, the School District purchased its property, fleet, and liability insurance from Argonaut Insurance Company.

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

Building and Contents-replacement cost (\$1,000 deductible)	\$55,881,151
Automobile Liability (\$250 Comprehensive/\$500 Collision deductible)	1,000,000
Auto Medical Payments	5,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Employer's Liability	1,000,000
Educational Legal Liability Limit (\$2,500 deductible)	1,000,000
Aggregate Per Year	3,000,000

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

B. Workers' Compensation

For fiscal year 2013, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The Board pays 80 percent of the medical/surgical premiums for family coverage and 90 percent for single coverage. The Board's share of the medical/surgical premiums is \$1,029 for family coverage and \$442 for single coverage. The Board pays 100 percent of the dental premiums for family and single coverage which is \$74 for both. The medical/surgical and dental premiums are paid from the fund that pays the salary of the covered employee. The claims liability of \$162,000 reported in the internal service fund at June 30, 2013, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$2,942,449. In addition, the School District has contracted for an excess stop-loss coverage, with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2012 and 2013 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2012	\$234,000	\$1,992,344	\$2,080,344	\$146,000
2013	146,000	2,419,701	2,403,701	162,000

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 and administrators who are contracted to work a minimum of 260 days earn ten to twenty-five days of vacation per year, depending upon length of service. Unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year, with the exception of the Treasurer, who is allowed to carry forward hours. Teachers do not earn vacation time.

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

B. Life and Vision Insurance

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

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Longevity Benefits Payable

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

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$298,066, \$279,561, and \$245,452, respectively. For fiscal year 2013, 80.75 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

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

East Muskingum Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, 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.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,141,545 and \$13,373 for the fiscal year ended June 30, 2013, \$1,077,250 and \$7,238 for the fiscal year ended June 30, 2012, and \$1,032,922 and \$132 for the fiscal year ended June 30, 2011. For fiscal year 2013, 83.61 percent has been contributed for the DB plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2013 were \$13,326 made by the School District and \$9,518 made by the plan members. In addition, member contributions of \$9,552 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2013, there are four employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the School District paid \$32,634 in surcharge.

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

The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$41,092, \$41,911, and \$66,356, respectively. For fiscal year 2013, 3.11 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$16,700, \$16,246, and \$16,065, respectively. For fiscal year 2013, 80.60 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

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

East Muskingum Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$85,700, \$84,065, and \$80,631, respectively. For fiscal year 2013, 83.61 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Note 14 - Capitalized Leases

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

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

Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$186,274, which is equal to the present value of the minimum lease payments. A corresponding liability was recorded in the government-wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$172,307. Principal payments in fiscal year 2013 totaled \$72,976, in the governmental funds.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$31,186	\$4,808
2015	32,445	3,549
2016	33,755	2,239
2017	35,117	877
2018	2,989	10
Totals	<u>\$135,492</u>	<u>\$11,483</u>

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 15 - Long-Term Obligations

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

	Outstanding 06/30/12	Additions	Reductions	Outstanding 06/30/13	Due Within One Year
Governmental Activities:					
2012 School Facilities Refunding					
Serial Bonds - various	\$4,950,000	\$0	\$355,000	\$4,595,000	\$365,000
Bond Premium	163,368	0	13,614	149,754	0
Total General Obligation Bonds	<u>5,113,368</u>	<u>0</u>	<u>368,614</u>	<u>4,744,754</u>	<u>365,000</u>
2007 House Bill 264 Energy					
Conservation Notes - 4.5%	328,226	0	30,385	297,841	31,753
Total Long-Term Debt	<u>5,441,594</u>	<u>0</u>	<u>398,999</u>	<u>5,042,595</u>	<u>396,753</u>
Capital Leases	45,452	163,016	72,976	135,492	31,186
Compensated Absences Payable	587,841	91,511	159,788	519,564	64,083
Longevity Benefits Payable	<u>1,060,074</u>	<u>153,850</u>	<u>232,206</u>	<u>981,718</u>	<u>119,831</u>
Total Long-Term Obligations	<u><u>\$7,134,961</u></u>	<u><u>\$408,377</u></u>	<u><u>\$863,969</u></u>	<u><u>\$6,679,369</u></u>	<u><u>\$611,853</u></u>

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

On September 9, 2011, the School District issued \$4,950,000 of School Facilities General Obligation Refunding serial bonds with varying interest rates between 2 percent to 4 percent. The general obligation refunding bonds were sold at a premium of \$176,988 that will be amortized over the term of the bonds. The amount amortized for fiscal year 2013 was \$13,614 leaving an unamortized balance of \$149,754. Issuance costs associated with the refunding bond issue, in the amount of \$86,809, was expensed in the year of issuance. The refunding resulted in a current refunding of the 2001 School Facilities serial and term bonds. \$5,121,344 (after premium, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2001 bonds. On December 1, 2011, the 2001 refunded bonds were called and paid in full and the escrow account was closed. As a result of the refunding, \$5,305,000 of refunded bonds is considered defeased and the liability is removed from the statement of net position. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition in the amount of \$121,344. This difference was expensed during fiscal year 2012. The School District completed the current refunding to reduce its total debt service requirements over the next 12 years by \$582,478 in order to obtain an economic gain of \$487,382.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

Year	Principal	Interest	Total
2014	\$365,000	\$146,688	\$511,688
2015	370,000	139,338	509,338
2016	380,000	131,188	511,188
2017	385,000	122,888	507,888
2018	395,000	111,513	506,513
2019-2023	2,205,000	316,306	2,521,306
2024	495,000	9,900	504,900
Total	<u>\$4,595,000</u>	<u>\$977,821</u>	<u>\$5,572,821</u>

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

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

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

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2013, are as follows:

Year	Principal	Interest	Total
2014	\$31,753	\$13,403	\$45,156
2015	33,181	11,974	45,155
2016	34,675	10,480	45,155
2017	36,235	8,920	45,155
2018	37,866	7,290	45,156
2019-2021	124,131	11,336	135,467
Total	<u>\$297,841</u>	<u>\$63,403</u>	<u>\$361,244</u>

The School District's overall legal debt margin was \$21,045,305, with an unvoted debt margin of \$283,919 at June 30, 2013.

Note 16 - Interfund Balances

The governmental balance sheet reflects an interfund receivable and payable in the amount of \$95,136. The General Fund made short-term loans to the Title I and the Miscellaneous Federal Grants Special Revenue Funds in the amounts of \$6,041 and \$89,095, respectively. These loans were for actual cash deficits and were covered by cash from the General Fund.

Note 17 - Jointly Governed Organizations

A. Licking Area Computer Association (LACA)

The School District is a participant in LACA, which is a computer consortium. LACA is an association which serves fourteen counties within the boundaries of Licking, Knox, and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and the School District has no equity interest in the Association. The LACA constitution states that any school district withdrawing from the Association prior to the dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for computer and internet services during fiscal year 2013 were \$111,369. Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, Ohio 43055.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards. The Board possesses its own 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 2013, the School District made no contributions to the Center. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 195 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 42 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate.

The governing board of MEC is composed of 44 members, either the superintendent, a designated representative, or a member of the board of education for each participating school district in Franklin County and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2013, the School District made a payment of \$793 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Sue Ward, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, Ohio 43219.

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

D. Coalition of Rural and Appalachian Schools (CORAS)

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2013. To obtain financial information write to the Coalition of Rural and Appalachian Schools, Dr. Richard Murray, Interim Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

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

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides educational management information and cooperative purchasing services to member districts. The School District participates in the sales service programs to purchase food, office, and classroom supplies. These programs allow schools to purchase supplies at reduced rates. During fiscal year 2013, the total amount paid to OME-RESA from the School District was \$617 for these services. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Boulevard, Steubenville, Ohio 43952.

F. Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized in 1990 to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The membership of the coalition includes over 500 school districts throughout the State of Ohio. The Committee exercises total control over budgeting, appropriating, contracting, and the designation of management. Member school districts and joint vocational schools pay dues of \$.05 per pupil. School districts and joint vocational schools may also pay supplemental dues in the amount of \$.50 per pupil for K-12 districts and educational service centers pay dues of \$.05 per pupil. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2013, the School District paid \$1,086 to the Coalition. To obtain financial information write to Ohio Coalition of Equity and Adequacy of School Funding at 100 South Third Street, Columbus, Ohio 43215.

Note 18 - Insurance Purchasing Pools

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

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

B. Ohio School Benefits Cooperative

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

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

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, if applicable, cannot be determined at this time.

B. Litigation

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

East Muskingum Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 20 - Set-Asides

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

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

	Capital Acquisition
Set-aside Reserve Balance June 30, 2012	\$0
Current Year Set-aside Requirement	367,985
Current Year Offsets	(1,090,874)
Current Year Qualifying Disbursements	(173,293)
Total	(\$896,182)
Balance Carried Forward to Fiscal Year 2014	\$0

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

Note 21 - Significant Commitments

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

Governmental Funds	Encumbrances
General Fund	\$335,203
Permanent Improvement Levy	461,340
Nonmajor Governmental Funds	128,832
Total Governmental Funds	\$925,375

Note 22 - Subsequent Event

The Board of Education approved a 2 percent base salary increase for all employees at the August 8, 2013 regular meeting to be effective August 12, 2013.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program - Food Distribution	N/A	10.555	\$62,176	\$62,176
Cash Assistance:				
School Breakfast Program	2013	10.553	77,512	77,512
National School Lunch Program	2013	10.555	349,826	349,826
Cash Assistance Subtotal			<u>427,338</u>	<u>427,338</u>
Total Child Nutrition Cluster			<u>489,514</u>	<u>489,514</u>
State Administrative Expenses for Child Nutrition	2013	10.560	<u>12,640</u>	<u></u>
Total U.S. Department of Agriculture			502,154	489,514
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2012	84.010	17,120	41,240
	2013		309,111	315,153
Total Title I Grants to Local Educational Agencies			<u>326,231</u>	<u>356,393</u>
Special Education Cluster:				
Special Education, Grants to States (IDEA, Part B)	2012	84.027	9,692	27,757
	2013		326,486	323,634
Total Special Education, Grants to States (IDEA, Part B)			<u>336,178</u>	<u>351,391</u>
Special Education - Preschool Grants	2013	84.173	<u>7,675</u>	<u>7,675</u>
Total Special Education Cluster			343,853	359,066
Improving Teacher Quality State Grants	2013	84.367	79,265	78,999
ARRA - Race-to-the-Top Incentive Grants, Recovery Act				
Race to the Top	2012	84.395	(3,282)	6,663
Race to the Top	2013		32,747	67,121
Race to the Top Mini Grant	2013			4,726
Ohio Appalachian Collaborative (OAC)	2013		41,028	99,960
Ohio Resident Educator Program	2013		1,400	1,400
Total ARRA - Race to the Top Incentive Grants			<u>71,893</u>	<u>179,870</u>
Total U.S. Department of Education			<u>821,242</u>	<u>974,328</u>
Total Federal Awards Receipts and Expenditures			<u><u>\$1,323,396</u></u>	<u><u>\$1,463,842</u></u>

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

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2012 to 2013</u>
ARRA-Race to the Top-ODE	84.395	\$3,282



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 23, 2014. We also noted the School District has adopted new accounting guidance in Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*, and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

January 23, 2014



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the East Muskingum Local School District, Muskingum County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Dave Yost
Auditor of State

Columbus, Ohio

January 23, 2014

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weakness reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> • Child Nutrition Cluster, CFDA # 10.553 and 10.555 • Title I Grants to Local Educational Agencies, CFDA #84.010 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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**EAST MUSKINGUM LOCAL SCHOOLS DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Noncompliance and Material Weakness- 34 CFR 80.21(c): Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. ARRA-Race to the Top funds were not spent by the end of the month for which the drawdowns were requested.	Yes	Corrected

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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the East Muskingum Local School District, Muskingum County, Ohio, has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on June 13, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

Columbus, Ohio

January 23, 2014

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EAST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 6, 2014**