



Mary Taylor, CPA
Auditor of State

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Zanesville City School District
Muskingum County
160 North Fourth Street
Zanesville, Ohio 43701

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The School District is experiencing certain financial difficulties. These conditions, and management's plan to address these conditions, are described in Note 23.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2009, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

March 19, 2009

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

As management of the Zanesville City School District (the School District), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the notes to the basic financial statements.

Financial Highlights

Key financial highlights for fiscal year 2008 are as follows:

- Net assets of governmental activities decreased \$430,584.
- General revenues accounted for \$29,316,884 in revenue or 72 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$11,639,935 or 28 percent of total revenues of \$40,956,819.
- Total assets of governmental activities increased by \$1,728,999 mostly due to increases in cash and cash equivalents and capital assets and decreases in intergovernmental receivable and property taxes receivable.
- The School District had \$41,387,403 in expenses relating to governmental activities; only \$11,639,935 of these expenses was offset by program specific charges for services, grants, contributions, and interest.

Using this Annual Financial 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 and conditions.

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for multiple financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Ohio School Facilities Commission Capital Projects Fund.

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

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

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

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007.

Table 1 - Net Assets

	Governmental Activities		
	2008	2007	Change
Assets			
Current and Other Assets	\$81,429,267	\$81,312,429	\$116,838
Capital Assets	36,181,039	34,568,878	1,612,161
Total Assets	117,610,306	115,881,307	1,728,999
Liabilities			
Long-Term Liabilities	36,586,730	37,173,068	(586,338)
Other Liabilities	16,568,547	13,822,626	2,745,921
Total Liabilities	53,155,277	50,995,694	2,159,583
Net Assets			
Invested in Capital Assets, Net of Debt	6,084,887	3,923,367	2,161,520
Restricted	63,153,359	65,918,417	(2,765,058)
Unrestricted (Deficit)	(4,783,217)	(4,956,171)	172,954
Total Net Assets	\$64,455,029	\$64,885,613	(\$430,584)

Total assets increased \$1,728,999. The majority of the increase in current and other assets was due mainly to an increase of \$8,063,392 in cash and cash equivalents. This increase was offset by decreases in the amount of \$7,550,013 in intergovernmental receivables and \$366,566 in property taxes receivable. The increase in cash and cash equivalents was due mainly to increased depository balances held at fiscal year end. The decrease in intergovernmental receivables is a direct result of the School District drawing down monies that are associated with Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program. Property taxes receivable decreased due a decrease in the amount available for advance. During 2008, the Muskingum County Auditor's Office converted their real estate taxes to a new software system. This conversion caused the second half real estate taxes that were normally collected in late June to not be due and collected until mid August, which resulted in a decrease in the amount available as an advance. The primary cause for increased capital assets is the increase in the amount of construction in progress being recorded in connection with Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program.

Total liabilities increased by \$2,159,583. The majority of the increase is in other liabilities due to an increase of \$3,589,000 in deferred revenue, an increase in the amount of \$203,708 in contracts payable, and an increase in the amount of \$163,730 in claims payable. The increase in deferred revenue is due to the Muskingum County second half real estate taxes being due and collected in mid August rather than late June. Therefore, the amount available as an advance for real property taxes was considerably less. The increase in contracts payable was due to the increased construction associated with Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program. The increase in claims payable from the prior year was a result of an increase in the actuarial estimate. These increases were offset by decreases of \$575,626 in intergovernmental payable, a decrease of \$351,004 in accounts payable, and a decrease of \$326,347 in accrued wages and benefits payable.

Zanesville City School District, Ohio
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Intergovernmental payable decreased as a result of a reduction in the amounts being recorded for the retirement system accruals from the state foundation. Accounts payable decreased from the prior year due to the timing of payments for professional services. Accrued wages and benefits decreased as a result of the decrease in the number of employees that are employed by the School District. In fiscal year 2007, the School District employed 198 classified employees and 317 certified employees. As of June 30, 2008, the School District employed 187 classified employees and 264 certified employees. The long-term liabilities decreased by \$586,338. This decrease was due to the School District making a \$590,000 principal payment on the School Facilities General Obligation Bonds and a decrease of \$290,466 in the amount of compensated absences due to a decrease in the amount of individuals employed by the School District. These decreases were offset by increases of \$158,665 in retirement incentive/ termination benefits payable and \$132,131 in capital leases payable, respectively. The increase in retirement incentive/termination benefits payable was due to the second group of teachers who retired during fiscal year 2008 in the amount of \$831,823. The increase in retirement incentive/termination benefits payable is offset by a payment in the amount of \$673,158 that was made during fiscal year 2008 for the first group that retired and were recorded as a liability at June 30, 2007. During fiscal year 2008, the School District entered into a capital lease in the amount of \$155,472 and made a principal payment in the amount of \$23,341.

The School District's net assets decreased \$430,584. Invested in capital assets increased \$2,161,520 due to an increase of \$1,612,161 in capital assets and an increase of \$549,359 resulting from the retirement of debt that was associated with the construction of school facility projects. The majority of the restricted net assets decrease of \$2,765,058 was due to a decrease in the amount of restricted net assets for capital projects.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, and comparisons to fiscal year 2007.

Table 2 - Changes in Net Assets

Revenues	Governmental Activities		
	2008	2007	Change
Program Revenues			
Charges for Services	\$2,078,176	\$1,818,955	\$259,221
Operating Grants, Contributions, and Interest	9,476,113	9,148,980	327,133
Capital Grants, Contributions, and Interest	85,646	73,952	11,694
Total Program Revenues	<u>11,639,935</u>	<u>11,041,887</u>	<u>598,048</u>
General Revenue			
Property Taxes	7,556,635	12,348,440	(4,791,805)
Grants and Entitlements	21,367,758	82,347,123	(60,979,365)
Payment in Lieu of Taxes	2,820	52,364	(49,544)
Investment Earnings	255,903	328,263	(72,360)
Miscellaneous	133,768	59,693	74,075
Total General Revenues	<u>29,316,884</u>	<u>95,135,883</u>	<u>(65,818,999)</u>
Total Revenues	<u>40,956,819</u>	<u>106,177,770</u>	<u>(65,220,951)</u>

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

(continued)

Program Expenses	Governmental Activities		
	2008	2007	Change
Instruction			
Regular	\$15,013,524	\$17,019,427	(\$2,005,903)
Special	6,226,632	6,813,434	(586,802)
Vocational	284,682	251,888	32,794
Intervention	732,751	601,962	130,789
Support Services			
Pupils	2,332,284	2,067,124	265,160
Instructional Staff	3,833,560	4,538,962	(705,402)
Board of Education	142,769	329,659	(186,890)
Administration	2,460,002	2,513,680	(53,678)
Fiscal	727,148	698,355	28,793
Operation and Maintenance of Plant	3,503,638	3,457,340	46,298
Pupil Transportation	1,207,366	1,069,301	138,065
Central	533,940	556,595	(22,655)
Operation of Non-Instructional Services:			
Food Service Operations	1,917,483	2,077,372	(159,889)
Other	394,076	485,067	(90,991)
Extracurricular Activities	515,231	483,500	31,731
Interest	1,562,317	1,572,577	(10,260)
Total Program Expenses	<u>41,387,403</u>	<u>44,536,243</u>	<u>(3,148,840)</u>
<i>Change in Net Assets</i>	(430,584)	61,641,527	(62,072,111)
Net Assets Beginning of Year	64,610,013	2,968,486	61,641,527
Prior Period Adjustment	275,600	0	275,600
Net Assets Beginning of Year - Restated (See Note 3)	<u>64,885,613</u>	<u>2,968,486</u>	<u>61,917,127</u>
Net Assets End of Year	64,455,029	64,610,013	(154,984)
Prior Period Adjustment	0	275,600	(275,600)
Net Assets End of Year - Restated (See Note 3)	<u>\$64,455,029</u>	<u>\$64,885,613</u>	<u>(\$430,584)</u>

Total revenues decreased from fiscal year 2007 to fiscal year 2008. The majority of this decrease was due to a decrease in unrestricted grants and entitlements during fiscal year 2008. During fiscal year 2007, the entire approved amount for Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program was recorded as revenue. The decrease in property taxes revenue is due to second half real estate taxes not being collected until mid August resulting in a decrease in the amount available as an advance.

Total instruction expense decreased \$2,429,122. Regular instruction decreased \$2,005,903 and special instruction decreased \$586,802 due to the School District eliminating 44 certified positions during fiscal year 2008 in order to reduce expenses.

Instructional staff decreased \$705,402 mainly due to the School District eliminating an additional 9 certified positions during fiscal year 2008.

The decrease of \$159,889 in food service operation expenses is due to the School District eliminating a total of 11 classified positions during fiscal year 2008 in order to reduce expenses.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
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Instruction comprises approximately 54 percent of governmental program expenses, support services make up approximately 36 percent of the program expenses, operation of non-instructional services make up approximately 6 percent of program expenses, and the remaining 4 percent of program expenses is related to extracurricular activities and interest expenses of the School District.

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

Table 3 - Governmental Activities

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Program Expenses				
Instruction				
Regular	\$15,013,524	\$13,542,877	\$17,019,427	\$15,259,038
Special	6,226,632	2,046,758	6,813,434	2,947,611
Vocational	284,682	256,352	251,888	203,657
Intervention	732,751	732,751	601,962	601,962
Support Services:				
Pupils	2,332,284	1,673,585	2,067,124	1,433,255
Instructional Staff	3,833,560	2,001,690	4,538,962	3,022,701
Board of Education	142,769	142,769	329,659	267,259
Administration	2,460,002	2,060,879	2,513,680	2,250,706
Fiscal	727,148	701,115	698,355	684,123
Operation and Maintenance				
of Plant	3,503,638	3,457,953	3,457,340	3,402,124
Pupil Transportation	1,207,366	977,163	1,069,301	844,373
Central	533,940	488,507	556,595	514,383
Operation of				
Non-Instructional Services:				
Food Service Operations	1,917,483	(98,120)	2,077,372	230,571
Other	394,076	(39,358)	485,067	(16,797)
Extracurricular Activities	515,231	240,230	483,500	276,813
Interest	1,562,317	1,562,317	1,572,577	1,572,577
Totals	<u>\$41,387,403</u>	<u>\$29,747,468</u>	<u>\$44,536,243</u>	<u>\$33,494,356</u>

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. For 2008, only 28 percent of the governmental activities performed by the School District are supported through program revenues such as charges for services, grants, contributions, and interest. The remaining 72 percent is provided through taxes and entitlements.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The School District's Major Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$48,536,214 and expenditures of \$43,437,574.

General Fund

The deficit fund balance of the General Fund at June 30, 2008 is (\$1,862,019), a decrease of \$53,042. The majority of this decrease is due to the School District eliminating unnecessary expenditures and reducing both certified and classified positions.

Ohio School Facilities Commission Capital Projects Fund

The fund balance of the Ohio School Facilities Commission Capital Projects Fund at June 30, 2008 is \$5,385,511, an increase of \$5,047,459. The majority of this increase is due to the School District beginning to draw monies that were unspent at the end of the year for the construction associated with Phase II of the Ohio School Facilities Expedited Local Partnership Program that began during fiscal year 2007.

General Fund Budgeting Highlights

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

During the course of fiscal 2008, the School District amended its General Fund budget. The School District closely monitors its resources and uses and if necessary, modifies appropriations on a timely basis.

The General Fund had original revenue budget estimates of \$30,278,367. The original budget estimates were increased to a final budget amount of \$30,693,110 for the fiscal year. Actual revenues were \$53,454 above final budgeted estimates.

The General Fund had original expenditure budget estimates of \$28,148,551. The original budget estimates were increased to a final budget amount of \$28,588,719 for the fiscal year. This increase between the original and final budgets were due to conservative estimates made by the Treasurer for costs associated with students leaving the School District through open enrollment. Actual expenditures were \$269,969 below final budgeted estimates due to the actual costs for open enrollment were less than what the Treasurer had expected.

The School District's ending unobligated General Fund budgetary balance was \$333,422 above the final budgeted amount.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$36,181,039 invested in land, construction in progress, buildings, and building improvements, improvements other than buildings, furniture, fixtures, equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared to 2007.

**Table 4 - Capital Assets at June 30, 2008
(Net of Depreciation)**

	<u>Government Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$2,394,037	\$2,205,942
Construction in Progress	2,392,930	215,522
Buildings and Building Improvements	30,275,127	31,157,683
Improvements Other Than Buildings	298,714	326,623
Furniture, Fixtures, Equipment and Vehicles	<u>820,231</u>	<u>663,108</u>
Totals	<u><u>\$36,181,039</u></u>	<u><u>\$34,568,878</u></u>

See Note 11 for more detailed information of the School District's capital assets.

Debt

At June 30, 2008, the School District had \$32,630,048 in bonds, accretion, and unamortized premium and discount outstanding.

**Table 5
Outstanding Debt, at Fiscal Year End**

	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2007</u>
	2002 School Facilities	
Serial Bonds - 2.25-5.38%	\$6,195,000	\$6,785,000
Term Bonds - 4.75-5.38%	25,900,000	25,900,000
2002 School Facilities Capital Appreciation Bonds		
Original Issue	239,576	239,576
Accretion	160,481	127,976
2002 School Facilities Serial/ Term Bonds Discount	(33,034)	(34,572)
2002 School Facilities Serial/ Term Bonds Premium	<u>168,025</u>	<u>198,736</u>
Totals	<u><u>\$32,630,048</u></u>	<u><u>\$33,216,716</u></u>

See Note 15 for more detailed information of the School District's debt.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Economic Factors

The School District relies upon local property taxes and state foundation/grant monies to fund its operations. In fiscal year 2008, the School District received approximately 52 percent of its revenues from the state foundation program/grants and 18 percent from local property taxes.

The School District will continue to be conservative in the area of expenditures. The School District completed and implemented a Corrective Action Plan which was approved by the Ohio Department of Education due to the School District being declared in fiscal caution during fiscal year 2005. The School District continues to utilize a Board Finance Committee created during fiscal year 2005. Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the opportunities our students have come accustomed to.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 you may contact Cindy Nye, Treasurer, Zanesville City School District, 160 N Fourth Street, Zanesville, Ohio 43701. Or E-Mail at nye@zanesville.k12.oh.us.

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Zanesville City School District, Ohio

Statement of Net Assets

June 30, 2008

	Primary Government	Component Unit
	Governmental Activities	Zanesville Community High School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,920,466	\$145,193
Cash and Cash Equivalents in Segregated Accounts	77,635	0
Accounts Receivable	27,588	0
Inventory Held for Resale	12,715	0
Materials and Supplies Inventory	3,830	0
Prepaid Items	54,071	0
Due from Component Unit	19,802	0
Revenue in Lieu of Taxes Receivable	281,990	0
Property Taxes Receivable	12,679,368	0
Intergovernmental Receivable	56,116,191	76,405
Deferred Charges	235,611	0
Nondepreciable Capital Assets	4,786,967	0
Depreciable Capital Assets, Net	31,394,072	0
<i>Total Assets</i>	<u>117,610,306</u>	<u>221,598</u>
Liabilities		
Matured Compensated Absences Payable	44,137	0
Accounts Payable	227,631	7,538
Contracts Payable	203,708	0
Retainage Payable	4,066	0
Accrued Wages and Benefits Payable	3,488,639	0
Due to Primary Government	0	19,802
Vacation Benefits Payable	135,616	0
Accrued Interest Payable	121,539	0
Retirement Incentive Payable	12,000	0
Intergovernmental Payable	901,050	20,077
Claims Payable	715,079	0
Deferred Revenue	10,715,082	0
Long-Term Liabilities:		
Due Within One Year	1,606,448	0
Due In More Than One Year	34,980,282	0
<i>Total Liabilities</i>	<u>53,155,277</u>	<u>47,417</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,084,887	0
Restricted for:		
Federal Grants	797,936	0
State Grants	402,544	0
Unclaimed Monies	8,275	0
Bus Purchase	27,503	0
Capital Projects	59,596,727	0
Debt Service	1,860,527	0
Other Purposes	459,847	0
Unrestricted (Deficit)	(4,783,217)	174,181
<i>Total Net Assets</i>	<u>\$64,455,029</u>	<u>\$174,181</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2008

					Net (Expense) Revenue and Change in Net Assets	
	Program Revenues				Primary Government	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Component Unit
Governmental Activities						
Instruction:						
Regular	\$15,013,524	\$883,751	\$586,896	\$0	(\$13,542,877)	\$0
Special	6,226,632	439,700	3,740,174	0	(2,046,758)	0
Vocational	284,682	0	28,330	0	(256,352)	0
Intervention	732,751	0	0	0	(732,751)	0
Support Services:						
Pupils	2,332,284	2,434	656,265	0	(1,673,585)	0
Instructional Staff	3,833,560	2,434	1,801,929	27,507	(2,001,690)	0
Board of Education	142,769	0	0	0	(142,769)	0
Administration	2,460,002	0	398,123	1,000	(2,060,879)	0
Fiscal	727,148	14,238	11,795	0	(701,115)	0
Operation and Maintenance of Plant	3,503,638	847	15,145	29,693	(3,457,953)	0
Pupil Transportation	1,207,366	85,186	121,072	23,945	(977,163)	0
Central	533,940	0	45,433	0	(488,507)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,917,483	442,824	1,572,779	0	98,120	0
Other	394,076	2,432	430,502	500	39,358	0
Extracurricular Activities	515,231	204,330	67,670	3,001	(240,230)	0
Interest	1,562,317	0	0	0	(1,562,317)	0
<i>Total Primary Government</i>	<u>\$41,387,403</u>	<u>\$2,078,176</u>	<u>\$9,476,113</u>	<u>\$85,646</u>	<u>(29,747,468)</u>	
Component Unit						
Zanesville Community High School	<u>\$138,445</u>	<u>\$0</u>	<u>\$169,364</u>	<u>\$0</u>	<u>0</u>	<u>30,919</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					6,090,162	0
Debt Service					1,343,646	0
Classroom Facilities Maintenance					122,827	0
Payment in Lieu of Taxes for General Purposes					2,820	0
Grants and Entitlements not Restricted to Specific Programs					21,367,758	143,132
Investment Earnings					255,903	130
Miscellaneous					133,768	0
<i>Total General Revenues</i>					<u>29,316,884</u>	<u>143,262</u>
<i>Change in Net Assets</i>					(430,584)	174,181
Net Assets Beginning of Year - Restated (See Note 3)					64,885,613	0
<i>Net Assets End of Year</i>					<u>\$64,455,029</u>	<u>\$174,181</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Balance Sheet
Governmental Funds
June 30, 2008

	General	Ohio School Facilities Commission	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$522,806	\$5,593,285	\$5,777,368	\$11,893,459
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	27,007	0	0	27,007
Accounts Receivable	11,853	0	15,735	27,588
Intergovernmental Receivable	182,872	54,072,586	1,860,733	56,116,191
Inventory Held for Resale	0	0	12,715	12,715
Materials and Supplies Inventory	0	0	3,830	3,830
Interfund Receivable	162,487	0	0	162,487
Due from Component Unit	17,650	0	2,152	19,802
Prepaid Items	37,281	0	16,790	54,071
Revenue in Lieu of Taxes Receivable	248,151	0	33,839	281,990
Property Taxes Receivable	10,187,462	0	2,491,906	12,679,368
<i>Total Assets</i>	<u>\$11,397,569</u>	<u>\$59,665,871</u>	<u>\$10,215,068</u>	<u>\$81,278,508</u>
Liabilities				
Matured Compensated Absences Payable	\$30,185	\$0	\$13,952	\$44,137
Accounts Payable	140,757	0	79,908	220,665
Contracts Payable	0	203,708	0	203,708
Accrued Wages and Benefits Payable	2,392,351	0	1,096,288	3,488,639
Interfund Payable	0	0	162,487	162,487
Retainage Payable	0	4,066	0	4,066
Intergovernmental Payable	608,828	0	292,222	901,050
Deferred Revenue	10,087,467	54,072,586	3,388,326	67,548,379
<i>Total Liabilities</i>	<u>13,259,588</u>	<u>54,280,360</u>	<u>5,033,183</u>	<u>72,573,131</u>
Fund Balances				
Reserved for Encumbrances	45,621	71,846	486,041	603,508
Reserved for Unclaimed Monies	8,275	0	0	8,275
Reserved for Bus Purchase	27,503	0	0	27,503
Reserved for Property Taxes	372,696	0	97,873	470,569
Unreserved:				
Undesignated, Reported in:				
General Fund (Deficit)	(2,316,114)	0	0	(2,316,114)
Special Revenue Funds	0	0	897,686	897,686
Debt Service Fund	0	0	1,765,685	1,765,685
Capital Projects Funds	0	5,313,665	1,934,600	7,248,265
<i>Total Fund Balances (Deficit)</i>	<u>(1,862,019)</u>	<u>5,385,511</u>	<u>5,181,885</u>	<u>8,705,377</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,397,569</u>	<u>\$59,665,871</u>	<u>\$10,215,068</u>	<u>\$81,278,508</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 June 30, 2008

Total Governmental Fund Balances	\$8,705,377
 <i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	36,181,039
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(644,410)
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds:	
Property Taxes Receivable	1,493,717
Revenue in Lieu of Taxes Receivable	281,990
Intergovernmental Receivable	<u>55,057,590</u>
	56,833,297
Vacation Benefits Payable and Retirement Incentive Payable are not expected to be paid with expendable available financial resources and therefore not reported in the funds.	
Vacation Benefits Payable	(135,616)
Retirement Incentive Payable	<u>(12,000)</u>
	(147,616)
Unamortized issuance costs are reported as deferred charges on the statement of net assets but as an expenditure on the fund financial statements.	235,611
Accrued Interest Payable is recognized for outstanding long-term liabilities reported in the funds when due.	(121,539)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	
Bonds Payable	(32,334,576)
Bond Premium	(168,025)
Bond Discount	33,034
Accretion	(160,481)
Termination/Retirement Incentive Payable	(2,068,326)
Compensated Absences	(1,756,225)
Capital Lease Payable	<u>(132,131)</u>
	<u>(36,586,730)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$64,455,029</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	Ohio School Facilities Commission	Other Governmental Funds	Total Governmental Funds
	General		
Revenues			
Property Taxes	\$6,041,996	\$0	\$1,422,598
Payment in Lieu of Taxes	46,120	0	7,516
Intergovernmental	19,856,628	7,604,909	10,815,860
Interest	247,881	10,688	1,970
Tuition and Fees	1,256,525	0	181,834
Rentals	847	0	0
Extracurricular Activities	0	0	278,808
Charges for Services	0	0	442,824
Contributions and Donations	103	0	185,339
Miscellaneous	123,338	0	10,430
<i>Total Revenues</i>	<u>27,573,438</u>	<u>7,615,597</u>	<u>13,347,179</u>
Expenditures			
Current:			
Instruction:			
Regular	12,566,868	0	1,999,826
Special	4,152,565	0	1,979,233
Vocational	272,364	0	0
Intervention	0	0	732,751
Support Services:			
Pupils	1,621,726	0	663,508
Instructional Staff	1,106,476	0	2,520,173
Board of Education	125,066	0	0
Administration	1,956,940	0	402,518
Fiscal	667,633	0	51,571
Operation and Maintenance of Plant	3,292,271	9,194	136,050
Pupil Transportation	915,148	0	222,444
Central	486,480	0	37,050
Operation of Non-Instructional Services:			
Food Service Operations	0	0	1,781,369
Other	2,070	0	392,085
Extracurricular Activities	258,125	0	252,316
Capital Outlay	155,472	2,038,071	387,321
Debt Service:			
Principal Retirement	23,341	0	590,000
Interest and Fiscal Charges	5,935	0	1,543,614
<i>Total Expenditures</i>	<u>27,608,480</u>	<u>2,047,265</u>	<u>13,691,829</u>
<i>Excess of Revenues Over (Under) Expenditures:</i>	<u>(35,042)</u>	<u>5,568,332</u>	<u>(344,650)</u>
Other Financing Sources (Use)			
Transfers In	0	0	588,261
Transfers Out	(67,388)	(520,873)	0
Inception of a Capital Lease	155,472	0	0
<i>Total Other Financing Sources (Use)</i>	<u>88,084</u>	<u>(520,873)</u>	<u>588,261</u>
<i>Net Change in Fund Balances</i>	53,042	5,047,459	243,611
Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)	(1,915,061)	338,052	4,938,274
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,862,019)</u>	<u>\$5,385,511</u>	<u>\$5,181,885</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Reconciliation of the Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds		\$5,344,112
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:		
Capital Asset Additions	2,733,315	
Depreciation Expense	(1,121,154)	1,612,161
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 of the internal service fund is reported with governmental activities.		
		(366,159)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Tuition and Fees	(82,662)	
Payment in Lieu of Taxes	(50,816)	
Intergovernmental	(7,545,980)	
Delinquent Taxes	92,041	(7,587,417)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		613,341
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.		
		1,537
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	1,817	
Termination/Retirement Incentive Payable	(158,665)	
Retirement Incentive Payable	(12,000)	
Compensated Absences Payable	290,466	121,618
Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability.		
		(155,472)
The amortization of premiums, discounts, and issuance costs are reported on the statement of activities:		
Premium Amortization	30,711	
Discount Amortization	(1,538)	
Issuance Costs Amortization	(10,973)	18,200
Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds.		
		(32,505)
		(\$430,584)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$9,211,711	\$9,352,261	\$9,355,551	\$3,290
Payment in Lieu of Taxes	0	0	46,120	46,120
Intergovernmental	19,410,020	19,675,591	19,713,414	37,823
Interest	244,097	293,400	247,912	(45,488)
Tuition and Fees	1,242,404	1,105,577	1,256,746	151,169
Rentals	300	300	847	547
Contributions and Donations	0	0	146	146
Miscellaneous	169,835	265,981	125,828	(140,153)
<i>Total Revenues</i>	<u>30,278,367</u>	<u>30,693,110</u>	<u>30,746,564</u>	<u>53,454</u>
Expenditures				
Current:				
Instruction:				
Regular	12,493,753	12,137,556	12,978,869	(841,313)
Special	4,577,320	4,591,146	4,499,874	91,272
Vocational	276,985	280,596	279,816	780
Support Services:				
Pupils	1,583,847	1,664,859	1,665,353	(494)
Instructional Staff	635,594	1,160,010	1,102,847	57,163
Board of Education	276,053	254,108	128,003	126,105
Administration	1,946,605	2,006,247	1,991,755	14,492
Fiscal	879,317	660,019	666,930	(6,911)
Operation and Maintenance of Plant	3,116,207	3,359,426	3,302,186	57,240
Pupil Transportation	951,230	998,503	887,092	111,411
Central	1,123,036	1,152,162	515,336	636,826
Other Non-Instructional Services	3,521	3,521	1,885	1,636
Extracurricular Activities	285,083	282,376	258,904	23,472
Capital Outlay	0	38,190	39,900	(1,710)
<i>Total Expenditures</i>	<u>28,148,551</u>	<u>28,588,719</u>	<u>28,318,750</u>	<u>269,969</u>
<i>Excess of Revenues Over Expenditures</i>	2,129,816	2,104,391	2,427,814	323,423
Other Financing Use				
Transfers Out	(2,000)	(77,387)	(67,388)	9,999
<i>Net Change in Fund Balance</i>	2,127,816	2,027,004	2,360,426	333,422
Fund Balance (Deficit) Beginning of Year	(1,732,338)	(1,732,338)	(1,732,338)	0
Prior Year Encumbrances Appropriated	26,720	26,720	26,720	0
<i>Fund Balance End of Year</i>	<u>\$422,198</u>	<u>\$321,386</u>	<u>\$654,808</u>	<u>\$333,422</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Fund Net Assets

Self-Insurance Internal Service Fund

June 30, 2008

Current Assets	
Cash and Cash Equivalents in Segregated Accounts	\$77,635
Current Liabilities	
Accounts Payable	6,966
Claims Payable	715,079
	<hr/>
<i>Total Liabilities</i>	<i>722,045</i>
	<hr/>
Net Assets	
Unrestricted (Deficit)	(\$644,410)
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See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2008

Operating Revenues	
Charges for Services	\$5,484,407
Operating Expenses	
Purchased Services	524,451
Claims	5,334,137
<i>Total Operating Expenses</i>	<u>5,858,588</u>
<i>Operating Loss</i>	(374,181)
Non-Operating Revenue	
Interest Income	<u>8,022</u>
<i>Change in Net Assets</i>	(366,159)
<i>Net Assets (Deficit) at Beginning of Year</i>	<u>(278,251)</u>
<i>Net Assets (Deficit) at End of Year</i>	<u><u>(\$644,410)</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Cash Flows

Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transactions with Other Funds	\$5,484,407
Cash Payments for Services	(517,485)
Cash Payments for Claims	<u>(5,170,407)</u>

Net Cash Used for Operating Activities (203,485)

Cash Flows from Investing Activities

Interest on Investments	8,022
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Cash and Cash Equivalents Beginning of Year 273,098

Cash and Cash Equivalents End of Year \$77,635

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

Operating Loss	(\$374,181)
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Changes in Liabilities

Increase in Accounts Payable	6,966
Increase in Claims Payable	<u>163,730</u>

Net Cash Used for Operating Activities (\$203,485)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets

Equity in Pooled Cash and Cash Equivalents	\$30,011
Cash and Cash Equivalents in Segregated Accounts	<u>7,098</u>

<i>Total Assets</i>	<u><u>\$37,109</u></u>
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Liabilities

Intergovernmental Payable	\$7,098
Due to Students	28,768
Due to Others	<u>1,243</u>

<i>Total Liabilities</i>	<u><u>\$37,109</u></u>
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See accompanying notes to the basic financial statements

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Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 1 - Description of the School District and Reporting Entity

Zanesville City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by State and federal agencies.

The School District was established in 1849 when the first Zanesville High School was built with an enrollment of 50 students. The School District serves the City of Zanesville and is located in Muskingum County. The School District is staffed by 187 classified employees and 264 certificated full-time teaching personnel and administrative employees providing education to 3,915 students. The School District currently operates eight instructional buildings, one administrative building, and one garage.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the basic financial statements of the School District are not misleading. The primary government of the School District 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.

Discretely Presented Component Unit. The component unit information on the Statement of Net Assets and the Statement of Activities identifies the financial data of the School District's component unit, Zanesville Community High School. It is reported separately to emphasize that it is legally separate from the School District.

Zanesville Community High School. The Zanesville Community High School is a legally separate community school created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The Zanesville Community High School's mission, under a contractual agreement with the School District (Zanesville Community High School's sponsor), is to help at-risk students meet Ohio's graduation requirements. The Zanesville Community High School focuses on ensuring that basic survival needs are met so that students can achieve success in school. The Zanesville Community High School serves high school age students who have dropped out or are at risk of dropping out of school. A particular emphasis is placed on assisting parents and/or pregnant students obtain a high school diploma.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The Zanesville Community High School operates under the direction of a seven-member Board of Directors made up of seven voting community members appointed by the sponsor's non-voting six-member Board of Directors. All governing authority members should live and/or work in the Zanesville-Muskingum County community as well as to represent the interest of the Muskingum County community. The Sponsor is able to impose its will on Zanesville Community High School and due to Zanesville Community High School's relationship with the Sponsor it would be misleading to exclude Zanesville Community High School. The Sponsor can suspend the Zanesville Community High School's operations for any of the following reasons: 1) The Zanesville Community High School's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Zanesville Community High School's failure to meet generally accepted standards of fiscal management, 3) The Zanesville Community High School's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Zanesville Community High School uses the facilities of the Sponsor. Separately issued financial statements can be obtained from the Zanesville Community High School, 160 North Fourth Street, Zanesville, Ohio 43701.

The School District participates in five jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Mid-East Career and Technology Centers, Metropolitan Educational Council (MEC), Coalition of Rural and Appalachian Schools (CORAS), Ohio Coalition for Equity and Adequacy of School Funding, Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), and Ohio School Benefits Cooperative (OSBC). These organizations are presented in Notes 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District does not have any business-type activities.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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 used by the School District: 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 following are the School District's major governmental funds:

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

Ohio School Facilities Commission Capital Projects Fund The Ohio School Facilities Commission Capital Projects Fund is used to account for the receipts 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 Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no 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 funds account for staff and student managed activities.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

During fiscal year 2008, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. Nonparticipating investment contracts (repurchase agreements) are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

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 2008 amounted to \$247,881, which includes \$223,093 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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 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.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The School District maintains a capitalization threshold of five thousand dollars. The School District currently capitalizes land, buildings and improvements, vehicles, and machinery, equipment, furniture and fixtures. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Building Improvements	15-50 Years
Improvements Other than Buildings	10-45 Years
Furniture, Fixtures, Equipment and Vehicles	5-20 Years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables." These amounts are eliminated on the Statement of Net Assets.

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 employer 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 classified employees with six months 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 rate at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees having at least nineteen years of service.

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 funds from which these payments will be made.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, retirement incentive, and compensated absences 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. 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 financial statements.

Internal allocations of overhead expenses from one function to another or within the same function 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. 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 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 restricted for unclaimed monies and unspent revenues restricted for the purchase of buses. During fiscal year 2008, the reserve for bus purchase includes restricted cash and an intergovernmental receivable.

N. Fund Balance Reserves

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

The reserve for unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation. The reserve for bus purchase represents State grant funds required to be utilized for the purchase of school buses. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources to be used for instructional and support services activities and state and federal grants restricted for specified purposes. The government-wide statement of net assets reports \$63,153,359 of restricted net assets. Of the restricted net assets none is restricted by enabling legislation.

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

P. Extraordinary and Special Items

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

Q. Estimates

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

R. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets 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 for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to further allocate appropriations to the function and object level within each fund. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are not intended to be repaid.

The certificate of estimated resources may be amended during the 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 amended certificate in effect at the time final appropriations were passed by the Board of Education.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The appropriation resolution is subject to amendment by the Board of Education throughout the year with the restriction that appropriations may not exceed estimated resources. 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 the prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

S. Unamortized Issuance Costs/ Bond Premium and Discount

In the government-wide financial statements bond issuance costs, bond premiums and bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

On the governmental fund financial statements, issuance costs, bond premiums and bond discounts are recognized in the period in which the debt is issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

T. 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 nonoperating.

Note 3 - Change in Accounting Principles and Restatement of Fund Balance/Net Assets

A. Change in Accounting Principles

For 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and the STRS post-employment healthcare plans in the amount of \$89,305 and \$39,094 respectively, which are the same as the previously reported liabilities.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Fund Balance/Net Assets

During 2008, the School District determined that payment in lieu of taxes receivable were misstated. These adjustments had the following effect on fund balance/net assets as previously reported at June 30, 2007:

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Fund Balance as Previously Reported	(\$1,866,247)	\$4,946,666
Deferred Revenue	<u>(48,814)</u>	<u>(8,392)</u>
Adjusted Fund Balance, June 30, 2007	<u><u>(\$1,915,061)</u></u>	<u><u>\$4,938,274</u></u>
	<u>Governmental Activities</u>	
Governmental Activities Net Assets as Previously Reported	\$64,610,013	
Payment in Lieu of Taxes Receivable	<u>275,600</u>	
Adjusted Governmental Activities Net Assets, June 30, 2007	<u><u>\$64,885,613</u></u>	

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2008, the following funds had fund deficits:

	<u>Deficit Fund Balance/ Net Assets</u>
General Fund	(\$1,862,019)
Title VI-B Grant Special Revenue Fund	(29,805)
Self-Insurance Internal Service Fund	(644,410)

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The deficit in the General Fund was created by the lack of unrestricted resources to cover operations of the fund and also by the adjustment of accrued liabilities. The School District is currently monitoring its financial condition and is taking steps to increase revenues and reduce spending.

The deficits in the Title IV-B Special Revenue Fund and the Self-Insurance Internal Service Fund are due to adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur and when cash is available in the General Fund.

B. Compliance

The following funds had final appropriations in excess of estimated resources plus available balances for the year ended June 30, 2008:

	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<u>Nonmajor Special Revenue Funds:</u>			
Scholarship Trust	\$27,585	(\$29,317)	(\$1,732)
Title I	2,599,895	(2,603,074)	(3,179)

The School District will more closely monitor budgetary procedures relating to the above violations in the future.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statement for the General Fund:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balance

GAAP Basis	\$53,042
Net Adjustment for Revenue Accruals	3,157,987
Net Adjustment for Expenditure Accruals	(810,035)
Beginning:	
Prepaid Items	47,447
Unrecorded Cash	136
Ending:	
Prepaid Items	(37,281)
Unrecorded Cash	(105)
Adjustment for Encumbrances	<u>(50,765)</u>
Budget Basis	<u><u>\$2,360,426</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the 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;

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

3. Written repurchase agreements in the 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 describe in (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$7,575,589 of the School District's bank balance of \$7,879,808 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and 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, 2008, the School District had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity
Repurchase Agreements	\$431,658	1 Day
STAROhio	4,055,471	Average 53.8 Days
Total	<u>\$4,487,129</u>	

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. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. 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. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Credit Risk

The underlying securities for the repurchase agreements carry a rating of AAA by Standard and Poor's and STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of calendar year 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory.

The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Muskingum County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 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, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 reported as revenue at fiscal year end. The amount available as an advance at June 30, 2008, was \$470,569. \$372,696 was available to the General Fund, \$89,980 was available to the Bond Retirement Debt Service Fund, and \$7,893 was available to the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2007, was \$4,518,176. \$3,686,251 was available to the General Fund and \$831,925 was available to the Bond Retirement Debt Service 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 deferred. On a modified accrual basis, only the amount available as an advance is recognized as revenue.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$371,370,900	88.94%	\$367,492,550	91.78%
Public Utility Personal	16,627,890	3.98%	12,747,750	3.18%
General Business Personal	29,542,258	7.08%	20,184,563	5.04%
Total Assessed Value	<u>\$417,541,048</u>	<u>100.00%</u>	<u>\$400,424,863</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$49.33		\$49.33	

Note 8 - Receivables

Receivables at June 30, 2008, consisted of property taxes, payment in lieu of taxes, accounts (rent, student fees and tuition), intergovernmental grants, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes and payment in lieu of taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Delinquent property taxes in the amount of \$1,493,717, payment in lieu of taxes in the amount of \$281,990, and the portion of Phase II Construction Project totaling \$54,072,586 that will be paid to the School District through the Ohio School Facilities Commission for future construction will not be collected within one year.

On July 2, 2007, the School District was awarded \$61,677,495 for the construction of a new high school and two new elementary buildings under the State's "Classroom Facilities Program". Under this program, the School District entered into an agreement with the State of Ohio in which the State would pay for a portion of the estimated project costs. As part of the process, the School District maintains a fund into which a one-half mill levy is receipted for facilities maintenance. As of the end of fiscal year 2008, the School District had received \$7,604,909 of the monies awarded under this program. The remaining amount of \$54,072,586 is recorded as a receivable and deferred revenue on the balance sheet.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

On December 2, 1999 and May 28, 2002, Muskingum County entered into Enterprise Zone Tax Incentive Agreements with Mattingly Foods, Inc., for the purpose of construction, construction improvements, and job retention. On January 14, 2002 and December 22, 2003, Muskingum County entered into Enterprise Zone Tax Incentive Agreements with Lear Corporation for the purpose of construction, construction improvements, and job retention. To encourage these improvements, each company was granted a 100 percent exemption real and personal property taxes for a ten year period by making direct annual payments to Muskingum County. Each company is required to make annual payments, representing payments in lieu of taxes, that will be 25 percent of the amount of real and personal property taxes that would have been received if the 100 percent exemption had not been granted relating to the project. The School District has agreed to each project 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 each financing agreement. Each company makes payments in lieu of taxes to Muskingum County which are distributed to the School District.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
School Foundation Adjustments	\$127,153
Excess Costs	24,550
School Bus Purchase Reimbursement - Foundation	8,771
Food Service	27,007
Title VI-B Grant	283,398
Title I Grant	923,709
Title II-D Grant	15,808
Title II-A Grant	235,870
21st Century Grant	189,000
Evenstart Grant	5,494
Public Preschool Grant	119,688
Gear Up Grant	54,000
City of Zanesville Reimbursement	22,398
Title V	6,759
Ohio School Facilities - Phase II Construction	54,072,586
Total	<u><u>\$56,116,191</u></u>

Note 9 - Transfers

Following is a summary of transfers in and out for all funds at June 30, 2008:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$67,388
Ohio School Facilities Commission Capital Projects Fund	0	520,873
 <u>Nonmajor Governmental Funds:</u>		
Miscellaneous Local Special Revenue Fund	65,000	0
Athletic and Music Special Revenue Fund	2,388	0
Building Capital Projects Fund	520,873	0
Total Nonmajor Funds	<u>523,261</u>	<u>0</u>
Total	<u><u>\$588,261</u></u>	<u><u>\$588,261</u></u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The transfer to the Miscellaneous Local Special Revenue Fund of \$65,000 was made to cover the transportation costs associated with pay to participate activities. The transfer to the Athletic and Music Special Revenue Fund of \$2,388 was made to cover the cheerleading advisor's pay. The transfer to the Building Capital Projects Fund of \$520,873 from the Ohio School Facilities Commission Capital Projects Fund was due to an amended agreement that no longer required a local match.

Note 10 - Interfund Balances

Individual interfund receivable and payable balances at June 30, 2008, are as follows:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General Fund</u>
Other Nonmajor Governmental	\$162,487
Total All Funds	\$162,487

Interfund receivables and payables represent individual fund cash overdrafts of certain School District funds at year-end.

As of June 30, 2008, the Miscellaneous Federal Grant Fund owes the General Fund for reimbursement of expenditures made from the General Fund for fuel reimbursements totaling \$6,622.

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Nondepreciable Capital Assets				
Land	\$2,205,942	\$188,095	\$0	\$2,394,037
Construction in Progress	215,522	2,232,190	(54,782)	2,392,930
Total Nondepreciable Capital Assets	2,421,464	2,420,285	(54,782)	4,786,967
Depreciable Capital Assets				
Buildings and Building Improvements	40,018,393	54,782	(71,671)	40,001,504
Improvements Other Than Buildings	1,457,708	0	0	1,457,708
Furniture, Fixtures, Equipment and Vehicles	2,250,819	313,030	0	2,563,849
Total at Estimated Historical Cost	43,726,920	367,812	(71,671)	44,023,061
Less Accumulated Depreciation				
Buildings and Building Improvements	(8,860,710)	(937,338)	71,671	(9,726,377)
Improvements Other Than Buildings	(1,131,085)	(27,909)	0	(1,158,994)
Furniture, Fixtures, Equipment and Vehicles	(1,587,711)	(155,907)	0	(1,743,618)
Total Accumulated Depreciation	(11,579,506)	(1,121,154) *	71,671	(12,628,989)
Depreciable Capital Assets, Net of Accumulated Depreciation	32,147,414	(753,342)	0	31,394,072
Governmental Activities Capital Assets, Net	\$34,568,878	\$1,666,943	(\$54,782)	\$36,181,039

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$450,951
Special Instruction	186,932
Vocational Instruction	7,410
Support Services:	
Pupils	43,970
Instructional Staff	67,774
Board of Education	17,703
Administration	88,284
Fiscal	317
Operation and Maintenance of Plant	62,188
Pupil Transportation	57,116
Central	8,944
Operation of Non-instructional Services:	
Food Service Operations	122,271
Other	2,504
Extracurricular Activities	<u>4,790</u>
Total Depreciation Expense	<u><u>\$1,121,154</u></u>

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$400,179, \$459,694, and \$438,802, respectively; 41 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. State Teachers Retirement System

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

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

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,597,026, \$2,318,503, and \$2,242,168 respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$10,334 made by the School District and \$19,510 made by the plan members.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 of Ohio have an option to choose Social Security or the School Retirement Board. As of June 30, 2008, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 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 2008, this amount was \$35,800.

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

The School District's contributions for health care, including the surcharge, for the fiscal years ended June 30, 2008, 2007, and 2006 were \$287,401, \$244,952, and \$224,895 respectively; 38 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$29,924, \$31,259, and \$25,450 respectively; 43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$122,848, \$179,282, and \$172,903 respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work on an eleven or twelve month basis earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Certified administrative personnel who work 260 days receive 20 days of vacation leave as of January 1st (except for the Superintendent who receives 25 days) in the same year in which the services are rendered (except for the Treasurer who accrues vacation leave each month). The Superintendent, Assistant Superintendent, and Treasurer are allowed to maintain maximum leave balances of 40 days, 40 days, and 30 days, respectively. Vacation leave may not be carried forward by classified employees from one year to the next unless special approval is given by the Superintendent. Accrued unused vacation leave is paid upon separation of service from the School District.

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 272 days for certified employees and up to 268 days for classified employees, including the Superintendent and Treasurer. Upon retirement, certificated employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 68 days. Classified employees, upon retirement, receive a severance payment for one-fourth of the total sick leave accumulation up to a maximum of 67 days. In addition, teachers may earn an additional day of sick leave compensation for each year that they served with perfect attendance.

B. Insurance

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

C. Retirement Incentive

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$12,000 retirement bonus (incentive), providing they retire in their 30th year.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The benefit will be paid in one lump sum in January following the year of retirement. The School District paid \$12,000 for retirement incentives during fiscal year 2008. At June 30, 2008, \$12,000 in retirement incentives was accrued as a liability to be paid in January 2009.

D. Retirement Incentive/Termination Benefits

The School District offered a one-time only voluntary separation agreement. The agreement was offered for teachers who were eligible and elected to retire at the end of fiscal year 2007 and fiscal year 2008. The benefit for those teachers that retired under this agreement was \$45,000. The agreement also provided a benefit for teachers who were not eligible to retire and at the top of the salary schedule. The benefit for those teachers was \$45,000.

Note 15 - Long -Term Debt and Other Obligations

Detail of the changes in the long-term obligations of the School District for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2002 School Facilities					
Serial Bonds - 2.25-5.38%	\$6,785,000	\$0	(\$590,000)	\$6,195,000	\$640,000
Term Bonds - 4.75-5.38%	25,900,000	0	0	25,900,000	0
Capital Appreciation Bonds - 5.375%	239,576	0	0	239,576	0
Capital Appreciation Bonds Accretion	127,976	32,505	0	160,481	0
Serial / Term Bond Discount	(34,572)	0	1,538	(33,034)	0
Serial/Term Bond Premium	198,736	0	(30,711)	168,025	0
Total Bonds	33,216,716	32,505	(619,173)	32,630,048	640,000
Retirement Incentive/					
Termination Benefits Payable	1,909,661	831,823	(673,158)	2,068,326	917,161
Capital Lease	0	155,472	(23,341)	132,131	29,296
Compensated Absences	2,046,691	49,642	(340,108)	1,756,225	19,991
Total Long-Term Obligations	\$37,173,068	\$1,069,442	(\$1,655,780)	\$36,586,730	\$1,606,448

During December of 2002, the School District issued \$34,414,576 in voted general obligation bonds to repay outstanding bond anticipation notes. These general obligations were issued to pay the local share of school construction under the Ohio Classroom Facilities Assistance Program, as part of the Expedited Local Partnership Program. The bond issue included serial, term, and capital appreciations bonds in the amounts of \$8,275,000, \$25,900,000, and \$239,576. The bonds will be retired from the Bond Retirement Debt Service Fund. The bonds were sold at a premium of \$337,819 and a discount of \$41,540. For fiscal year 2008, \$10,973 of the issuance costs were amortized. As of June 30, 2008, the School District had \$2,101,910 in unspent bond proceeds in the Ohio School Facilities Commission Capital Projects Fund.

The School District's overall legal debt margin at June 30, 2008 was \$22,907,987 with an unvoted debt margin of \$594,188.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The term bonds maturing on December 1, 2015, are subject to mandatory sinking redemption at a redemption price 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2014	\$980,000

The remaining principal amount of such Current Interest Bonds (\$1,070,000) will mature at stated maturity on December 1, 2015.

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2018	\$1,365,000
2019	1,470,000
2020	1,580,000
2021	1,690,000
Total	<u><u>\$6,105,000</u></u>

The remaining principal amount of such Current Interest Bonds (\$1,810,000) will mature on December 1, 2022.

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2023	\$1,940,000
2024	2,070,000
2025	2,210,000
Total	<u><u>\$6,220,000</u></u>

The remaining principal amount of such Current Interest Bonds (\$2,360,000) will mature on December 1, 2026.

The term bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2027	\$2,515,000
2028	2,685,000
Total	<u><u>\$5,200,000</u></u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The remaining principal amount of such Current Issue Bonds (\$2,155,000) will mature on December 1, 2029.

The capital appreciation bonds mature on December 1, 2013. These bonds were issued at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$945,000. For fiscal year 2008, \$32,505 was accreted for a total bond liability of \$400,057.

A. Principal and Interest Requirements

A summary of the School District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2008, follows:

Years	General Obligation Bonds		
	Principal	Interest	Total
2009	\$640,000	\$1,523,226	\$2,163,226
2010	695,000	1,500,611	2,195,611
2011	750,000	1,475,109	2,225,109
2012	810,000	1,445,728	2,255,728
2013	875,000	1,412,753	2,287,753
2014-2018	4,714,576	7,226,846	11,941,422
2019-2023	7,915,000	4,887,519	12,802,519
2024-2028	11,095,000	2,641,984	13,736,984
2029-2030	4,840,000	231,036	5,071,036
Totals	<u>\$32,334,576</u>	<u>\$22,344,812</u>	<u>\$54,679,388</u>

B. Retirement Incentive/ Termination Benefits

A summary of the School District's future termination benefit incentive payments as of June 30, 2008, follows:

Years	Retirement Incentive/ Termination Benefits
2009	\$917,161
2010	917,161
2011	234,004
Totals	<u>\$2,068,326</u>

C. Capital Leases Payable

Capital leases will be paid from the General Fund.

D. Compensated Absences

Compensated absences will be paid from the General Fund and the Food Service, Miscellaneous Local Funds, Poverty Based Assistance, Title VI-B, and Miscellaneous Federal Grants Special Revenue Funds.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 16 - Statutory Reserves

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

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

	Textbooks	Capital Improvements
Set-aside reserve (cash) balance as of June 30, 2007	\$0	\$0
Carry over from prior year	(681,012)	0
Current year set-aside requirement	589,982	589,982
Current year offsets	0	(2,156,650)
Qualifying disbursements	(208,812)	(146,043)
Total	<u>(\$299,842)</u>	<u>(\$1,712,711)</u>
Set-aside balance carried forward to future fiscal years	(\$299,842)	\$0
Set-aside reserve (cash) balance as of June 30, 2008	\$0	\$0

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

Note 17 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

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

Note 18 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2008 the School District contracted with several different insurance providers for insurance coverage, as follows:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Insurance Provider	Coverage	Limit of Insurance	Deductible
Utica National Insurance Group	Building and Personal Property Blanket	\$93,721,000	\$5,000
Utica National Insurance Group	Commercial General Liability:		
	General Aggregate Limit	\$2,000,000	
	Completed Operations Aggregate Limit	\$2,000,000	
	Personal and Advertising Injury Limit	\$1,000,000	
	Each Occurrence Limit	\$1,000,000	
	Damage to Premises Rented Limit	\$100,000	
	Medical Expense Limit (Any One Person)	\$10,000	
Utica National Insurance Group	Commercial Inland Marine Coverage	\$1,524,578	\$1,000
Utica National Insurance Group	Commercial Auto Coverage:		
	Liability	\$1,000,000	
	Auto Medical Payments	\$1,000	
	Uninsured Motorists	\$50,000	
	Underinsured Motorists	\$50,000	
	Comprehensive	Cash Value	\$1,000
	Collision	Cash Value	\$1,000
Utica National Insurance Group	Commercial Crime Coverage:		
	Inside the Premises - Per occurrence	\$25,000	
	Outside the Premises - Per messenger	\$25,000	
	Forgery or Alteration - Per occurrence	\$100,000	
	Employee Dishonesty - Per employee	\$100,000	
Utica National Insurance Group	Commercial Umbrella Liability:		
	General Aggregate Limit	\$3,000,000	
	Completed Operations Aggregate Limit	\$3,000,000	
	Each Incident Limit	\$3,000,000	
	Retained Limits-Each Incident	\$10,000	
Utica National Insurance Group	Commercial Property Coverage (Auxiliary Svcs):		
	Building and Personal Property Blanket	\$304,738	\$1,000
State Auto Insurance Company	Commercial Inland Marine Coverage	\$5,590	\$250
Cincinnati Insurance Company	Public Official's Bond - Treasurer	\$50,000	
Cincinnati Insurance Company	Public Official's Bond - Superintendent	\$20,000	
Cincinnati Insurance Company	Public Official's Bond - Board President	\$20,000	

There has been no significant reduction in insurance coverage from coverage in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

For fiscal year 2008, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Medical, surgical, prescription drug 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 claims liability of \$715,079 reported in the internal service fund at June 30, 2008, is based on an estimate provided by the third party administrator. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchased an aggregate stop-loss coverage policy in the amount of \$6,014,374 annually. 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 claims activity for the past fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$0	\$4,190,198	\$3,638,849	\$551,349
2008	551,349	5,334,137	5,170,407	715,079

Note 19 - Jointly Governed Organizations

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

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2008, the School District paid \$393,027 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

B. *Mid-East Career and Technology Centers*

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's 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 2008, the School District made payments totaling \$9,516 for day care services 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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of 166 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2008, the School District made a payment of \$1,551 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, OH 43219.

D. Coalition of Rural and Appalachian Schools (CORAS)

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development 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 \$300 for fiscal year 2008. To obtain financial information write to the Coalition of Rural and Appalachian Schools, Dick Fisher, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

E. Ohio Coalition for Equity and Adequacy of School Funding

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of government established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives that need not be Board of Education Superintendents. A maximum of 78 steering committee representatives may be appointed by the Chairperson. The School District's membership fee was \$2,093 for fiscal year 2008. To obtain financial information write to the Ohio Coalition for Equity and Adequacy of School Funding, William Phillis, Executive Director, 100 S. Third Street, Columbus, Ohio 43215.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 20 - Insurance Purchasing Pools

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

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

B. Ohio School Benefits Cooperative (OSBC)

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

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. The first option is that 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. The School District participates in the second option. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2008, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, and dental coverage.

Note 21 - Contractual Obligations

As of June 30, 2008, the School District had contractual purchase commitments for construction services relating to the Phase II of the Ohio School Facilities Project. The contract amount for these services is as follows:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Contractor	Purchase Commitments	Amounts Paid as of 06/30/2008	Amounts Remaining on Contracts
Stubbs, Addis, Schappa, McDonald Architects, Ltd.	\$3,395,938	\$2,023,990	\$1,371,948
H.C. Nutting, Inc.	25,620	23,800	1,820
Mays Consulting & Evaluation, Inc.	25,707	9,501	16,206
Stan & Associates, Inc.	112,989	9,193	103,796
Bonamase Contracting, Inc.	57,200	46,759	10,441
	<u>\$3,617,454</u>	<u>\$2,113,243</u>	<u>\$1,504,211</u>

Note 22 - Capitalized Leases

The School District has entered into a capitalized lease for multiple switches and routers from Key Government Finance, Inc. This lease meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The agreement provides for minimum annual lease payments as follows:

Fiscal Year Ending June 30,	Principal	Interest
2009	\$29,296	\$5,834
2010	30,768	4,363
2011	32,313	2,818
2012	33,936	1,195
2013	5,818	36
Total	<u>\$132,131</u>	<u>\$14,246</u>

The switches and routers were originally capitalized in the amount of \$155,472. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2008 totaled \$23,341 in the governmental funds.

Property under Capital Leases	\$155,472
Less: Accumulated Depreciation	(15,547)
Total June 30, 2008	<u>\$139,925</u>

Note 23 - Fiscal Caution

On March 2, 2006, the School District was placed in fiscal caution by the Ohio Department of Education and was required to submit a fiscal caution proposal by May 2, 2006 to address the projected deficit. The School District's plan was accepted in February 2007. The fiscal caution financial recovery plan includes the reduction of approximately 68 positions through reduction in force, retirements, non-renewal of positions, and transfers to another funding source. The net savings was projected at \$1.7 million in fiscal year 2008. In addition, a fiscal caution plan that addresses fiscal year 2009 was accepted by the Ohio Department of Education in February 2008.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 24 – Related Party Transactions

For fiscal year 2008, the School District provided \$61,903 to the Zanesville Community High School, a discretely presented component unit, for administrative, fiscal, and student services. As of June 30, 2008, Zanesville Community High School has paid all but \$19,802 of this amount. The balance remaining to be paid is reflected as Due from Component Unit by the School District and as Due to Primary Government by the component unit.

Note 25 - Zanesville Community High School

Basis of Presentation

The Zanesville Community High School is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The Zanesville Community High School uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR Pass-Through Grantor Program Title	Federal CFDA Number	Grant Year	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Food Distribution Program	10.550	2008	\$	\$ 114,016	\$	\$ 114,016
Nutrition Cluster:						
School Breakfast Program	10.553	2007 / 2008	442,588		442,588	
National School Lunch Program	10.555	2007 / 2008	985,396		985,396	
Child and Adult Care Food Program	10.558	2007 / 2008	79,607		79,607	
Summer Food Service Program for Children	10.559	2007 / 2008	18,404		18,404	
Total Nutrition Cluster			<u>1,525,995</u>	<u>0</u>	<u>1,525,995</u>	<u>0</u>
Total United States Department of Agriculture			1,525,995	114,016	1,525,995	114,016
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	2007	224,703		285,190	
		2008	1,199,495		1,317,232	
Total Title I Grants to Local Educational Agencies			<u>1,424,198</u>	<u>0</u>	<u>1,602,422</u>	<u>0</u>
Special Education - Grants to States	84.027	2007	127,311		158,735	
		2008	1,312,770		1,337,769	
Total Special Education - Grants to States			<u>1,440,081</u>	<u>0</u>	<u>1,496,504</u>	<u>0</u>
Safe and Drug-Free Schools and Communities: State Grants	84.186	2008	28,474		28,474	
Even Start: State Educational Agencies	84.213	2007	2,721		28,784	
		2008	165,894		156,573	
Total Even Start: State Educational Agencies			<u>168,615</u>	<u>0</u>	<u>185,357</u>	<u>0</u>
Twenty-First Century Community Learning Centers	84.287	2007	206,085		245,563	
		2008	336,000		308,369	
Total Twenty-First Century Community Learning Centers			<u>542,085</u>	<u>0</u>	<u>553,932</u>	<u>0</u>
State Grants for Innovative Programs	84.298	2007	(853)			
		2008	7,010		5,582	
Total State Grants for Innovative Programs			<u>6,157</u>	<u>0</u>	<u>5,582</u>	<u>0</u>
Education Technology State Grants	84.318	2007	(7,108)		952	
		2008	16,295		8,536	
Total Education Technology State Grants			<u>9,187</u>	<u>0</u>	<u>9,488</u>	<u>0</u>
Improving Teacher Quality	84.367	2007	27,428		78,382	
		2008	454,931		514,205	
Total Improving Teacher Quality			<u>482,359</u>	<u>0</u>	<u>592,587</u>	<u>0</u>
Total United States Department of Education			<u>4,101,156</u>	<u>0</u>	<u>4,474,346</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Job and Family Services and Muskingum Department of Job and Family Services:</i>						
Temporary Assistance to Needy Families	93.558	2008	88,350		73,690	
Total U.S. Department of Health and Human Services			<u>88,350</u>	<u>0</u>	<u>73,690</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u><u>\$ 5,715,501</u></u>	<u><u>\$ 114,016</u></u>	<u><u>\$ 6,074,031</u></u>	<u><u>\$ 114,016</u></u>

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

Zanesville City School District
Muskingum County
160 North Fourth Street
Zanesville, Ohio 43701

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 19, 2009, wherein we noted the School District is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School District's management in a separate letter dated March 19, 2009.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 19, 2009.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

March 19, 2009



Mary Taylor, CPA

Auditor of State

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

Zanesville City School District
Muskingum County
160 North Fourth Street
Zanesville, Ohio 43701

To the Board of Education:

Compliance

We have audited the compliance of the Zanesville City School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings as item 2008-002.

In a separate letter to the School District's management dated March 19, 2009 we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as finding 2008-002 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We did not consider the deficiency described in the accompanying Schedule of Findings to be a material weakness.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

March 19, 2009

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster, CFDA Nos. 10.553, 10.555, 10.558, and 10.559 Title I Grants to Local Educational Agencies, CFDA No. 84.010 Twenty-First Century Community Learning Centers, CFDA No. 84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2008-001

Material Noncompliance

Ohio Rev. Code Section 5705.36(A)(4) provides that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the Commission, and the Commission shall certify an amended certificate reflecting the deficiency.

Ohio Rev. Code Section 5705.39 provides that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the Budget Commission, or in case of appeal, by the Board of Tax Appeals. No appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

The School District adopted additional appropriations in the General Fund on October 31, 2007 but did not file the amended appropriations with the County Auditor in order to obtain a certificate that total appropriations do not exceed appropriations from each fund. Appropriations did exceed estimated resources at October 31, 2007 in the General Fund as follows:

<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
\$28,700,373	\$28,535,186	(\$165,187)

An amended certificate of estimated resources was filed with the County Auditor on January 24, 2008, whereby the amount of General Fund estimated resources was decreased by \$368,153. Appropriations then exceeded estimated resources at January 24, 2008 in the General Fund as follows:

<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
\$28,700,373	\$28,167,032	(\$533,341)

The County Auditor certified that appropriations did exceed the estimated resources in the General Fund. However, the School District did not reduce appropriations so that appropriations were less than certified estimated resources. Appropriations remained in excess of estimated resources for the General Fund until June 24, 2008 when an increased amended certificate of estimated resources was filed with the County Auditor.

Adopting appropriations in excess of estimated resources could result in deficit spending.

According to the Treasurer, this noncompliance occurred as a result of an oversight.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

<p>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>
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FINDING NUMBER 2008-001 (Continued)

Material Noncompliance - Ohio Rev. Code Section 5705.36(A)(4) (Continued)

We recommend the Board of Education limit appropriations to certified estimated resources. Prior to the Board adopting any supplemental appropriations, a comparison should be made between supplemental appropriations to be adopted with estimated resources. In those cases where supplemental appropriations will cause total appropriations to be in excess of estimated resources, then increased amended certificates should be obtained if additional revenues are expected, or the Board should refrain from adopting supplemental appropriations.

Officials' Response:

For the General Fund, appropriations and estimated revenue are monitored closely as part of the 5 year forecast recap that the Board of Education approves monthly. Due to this practice, amended certificate requests are done several times a year instead of monthly.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2008-002
CFDA Title and Number	Title I Grants to Local Educational Agencies, CFDA #84.010 and Twenty-First Century Community Learning Centers, CFDA No. 84.287
Federal Award Number / Year	2007/2008
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Significant Deficiency

34 C.F.R. part 80.21 and 31 CFR part 205 state that interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. These requirements allow for up to \$100 per year to be kept for administrative expenses.

The School District's cash balances in the Title I Fund ranged from \$97,330 to \$368,186 during 10 of the 12 months of the year. The Twenty-First Century Community Learning Center Grant Fund also maintained cash balances to a much lesser extent than cash balances on hand for the Title I Fund. Since the Title I and Twenty-First Century Grant funds' balances were part of the School District's pooled cash and cash equivalents, interest would have been earned on these federal monies. Although any interest earned on the federal program cash balances was credited to the General Fund, the School District did not prepare documentation to separately identify the amount of interest earned by each federal program. It was not practical for us to determine the amount of interest earned but we do believe interest earned on federal program monies would be greater than \$100.

The School District's practice of retaining interest earned on federal program monies does not comply with the aforementioned regulations and could result in the repayment of interest revenue to the Ohio Department of Education (ODE).

The School District should limit cash requests to avoid maintaining excessive balances in the federal programs. We recommend the School District consult with ODE for whatever action ODE deems appropriate.

Officials' Response and Corrective Action Plan:

Since the State only allows a cash request per month, requests are based upon anticipated upcoming expenses for the month. Sometimes invoices and/or goods ordered are not received as soon as anticipated resulting in grant balances being over 10% of the grant allocation. The Treasurer will monitor balances of federal funds more closely in the future.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Rev. Code § 5705.41(D) – Failure to obtain Treasurer’s prior certification.	No.	Compliance improved so this noncompliance was downgraded to a management letter item.
2007-002 and 2006-004	Ohio Rev. Code § 5705.10(H) – Negative fund cash balances.	Yes	
2007-003 and 2006-002	Ohio Rev. Code §§ 5705.36(A)(5) and 5705.39 – Appropriations in excess of estimated resources.	No.	Not Corrected. Repeated as finding number 2008-001.
2007-004 and 2006-003	Ohio Rev. Code § 5705.41(B) – Expenditures in excess of appropriations.	No.	Compliance improved so this noncompliance was downgraded to a management letter item.
2007-005 and 2006-001	Ohio Rev. Code § 5705.412 – Failure to certify revenues available for a “qualifying contract.”	Yes.	
2007-006 and 2006-005	Errors were noted in the School District’s recording of Capital Assets.	No.	Significant improvement noted so this item was downgraded to report in the management letter.
2007-007 and 2006-006	7 C.F.R. 210.8(a)(1) - Various control failures were noted in accounting for and reconciling food service receipts.	No.	Significant improvement noted so this item was downgraded to report in the management letter.
2007-008, 2006-008, 2005-003, and 2005-005	7 C.F.R. § 210.7(c)(1)(iii), 7 C.F.R § 220.11(b), 7 C.F.R. § 210.23(c), and Ohio Rev. Code § 149.351(A) – Missing food service records resulted in questioned costs of \$121,129 and \$22,208 in FY06 and FY05, respectively. Questioned costs were not required to be issued in the fiscal year 2007.	Yes.	The questioned costs have not been resolved. Improvements have been made since FY05 with no material noncompliance reported this audit.



Mary Taylor, CPA
Auditor of State

ZANESVILLE CITY 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
APRIL 14, 2009