



Dave Yost • Auditor of State

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Dave Yost • 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, 2012, 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, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 21, 2013

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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, 2012. 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 2012 are as follows:

- Net assets of governmental activities decreased \$3,999,963.
- General revenues accounted for \$34,111,806 in revenue or 77 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$9,941,779 or 23 percent of total revenues of \$44,053,585.
- The School District had \$48,053,548 in expenses relating to governmental activities; only \$9,941,779 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues in the amount of \$34,111,806 were not adequate to provide for these programs.

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 2012?" 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
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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 begin on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for 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 Bond Retirement Debt Service 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.

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 2012 compared to 2011.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 1 - Net Assets

	Governmental Activities		
	2012	2011	Change
Assets			
Current and Other Assets	\$32,577,778	\$38,380,641	(\$5,802,863)
Capital Assets	85,095,101	86,915,155	(1,820,054)
Total Assets	117,672,879	125,295,796	(7,622,917)
Liabilities			
Long-Term Liabilities	32,787,477	32,062,866	724,611
Other Liabilities	15,974,532	20,322,097	(4,347,565)
Total Liabilities	48,762,009	52,384,963	(3,622,954)
Net Assets			
Invested in Capital Assets, Net of Debt	54,887,547	57,167,943	(2,280,396)
Restricted	7,893,189	9,633,018	(1,739,829)
Unrestricted (Deficit)	6,130,134	6,109,872	20,262
Total Net Assets	\$68,910,870	\$72,910,833	(\$3,999,963)

Total assets decreased \$7,622,917. The decrease in assets is primarily due to a decrease in property taxes receivable and intergovernmental receivable.

Total liabilities decreased by \$3,622,954. Other liabilities decreased by \$4,347,565. The majority of the decrease in other liabilities is primarily due to decreases in deferred revenue, intergovernmental payable, accrued wages and benefits payable, and matured compensated absences payable.

The long-term liabilities increased by \$724,611. This increase was primarily due to the School District issuing a partial refunding of the School Facilities General Obligation Bonds.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012, and comparisons to fiscal year 2011.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 - Changes in Net Assets

Revenues	Governmental Activities		
	2012	2011	Change
Program Revenues			
Charges for Services	\$2,396,108	\$2,259,148	\$136,960
Operating Grants, Contributions, and Interest	7,498,869	9,450,901	(1,952,032)
Capital Grants and Contributions	46,802	46,802	0
Total Program Revenues	<u>9,941,779</u>	<u>11,756,851</u>	<u>(1,815,072)</u>
General Revenue			
Property Taxes	9,502,064	16,221,291	(6,719,227)
Payment in Lieu of Taxes	508	23,568	(23,060)
Grants and Entitlements	24,412,188	26,140,580	(1,728,392)
Grant - Ohio School Facilities Commission	0	1,184,766	(1,184,766)
Gain on Sale of Capital Asset	4,000	0	4,000
Investment Earnings	33,911	74,389	(40,478)
Miscellaneous	159,135	189,754	(30,619)
Total General Revenues	<u>34,111,806</u>	<u>43,834,348</u>	<u>(9,722,542)</u>
Total Revenues	<u>44,053,585</u>	<u>55,591,199</u>	<u>(11,537,614)</u>
Program Expenses			
Instruction			
Regular	18,294,491	19,613,907	(1,319,416)
Special	8,015,656	7,663,990	351,666
Vocational	470,970	441,195	29,775
Intervention	145,655	1,551,851	(1,406,196)
Support Services			
Pupils	2,585,687	2,895,891	(310,204)
Instructional Staff	3,547,576	3,887,890	(340,314)
Board of Education	145,153	140,120	5,033
Administration	2,250,224	2,481,207	(230,983)
Fiscal	613,039	692,747	(79,708)
Operation and Maintenance of Plant	3,629,112	4,978,253	(1,349,141)
Pupil Transportation	1,438,338	1,454,244	(15,906)
Central	680,339	1,395,001	(714,662)
Operation of Non-Instructional Services:			
Food Service Operations	2,291,347	2,033,551	257,796
Other	404,662	479,873	(75,211)
Extracurricular Activities	720,526	784,467	(63,941)
Interest	2,820,773	1,511,857	1,308,916
Total Program Expenses	<u>48,053,548</u>	<u>52,006,044</u>	<u>(3,952,496)</u>
<i>Change in Net Assets</i>	<u>(3,999,963)</u>	<u>3,585,155</u>	<u>(7,585,118)</u>
Net Assets Beginning of Year	76,170,783	72,585,628	3,585,155
Prior Period Adjustment	(3,259,950)	0	(3,259,950)
Net Assets Beginning of Year	<u>72,910,833</u>	<u>72,585,628</u>	<u>325,205</u>
Net Assets End of Year	<u>\$68,910,870</u>	<u>\$76,170,783</u>	<u>(\$7,259,913)</u>

Total revenues decreased \$11,537,614. This decrease in revenues is primarily due to a decrease in operating grants, contributions, and interest in the amount of \$1,952,032, a decrease in grants and entitlements in the amount of \$1,728,392, and a decrease in property taxes revenue in the amount of \$6,719,227, and a decrease

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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in Ohio School Facilities Commission grants in the amount of \$1,184,766. The decrease in grants and entitlements is a direct result of the education stabilization stimulus money being received in fiscal year 2011, but not 2012. The decrease in property taxes is primarily due to the timing of collections and a decrease in delinquent taxes. The decrease in Ohio School Facilities Commission grant is a result of the completion of the school building project.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 22 percent of governmental activities revenues for Zanesville City School District in fiscal year 2012. The remaining 78 percent of revenues are received through outside sources, such as restricted and unrestricted grants in aid.

Instruction comprises approximately 56 percent of governmental program expenses, support services make up approximately 31 percent of the program expenses, operation of non-instructional services make up approximately 6 percent of program expenses, and the remaining 7 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.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 3 - Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012	2012	2011	2011
Program Expenses				
Instruction				
Regular	\$18,294,491	\$15,711,515	\$19,613,907	\$17,096,333
Special	8,015,656	6,124,772	7,663,990	5,208,608
Vocational	470,970	413,291	441,195	383,566
Intervention	145,655	145,655	1,551,851	1,551,851
Support Services:				
Pupils	2,585,687	2,368,718	2,895,891	2,366,780
Instructional Staff	3,547,576	1,602,369	3,887,890	896,163
Board of Education	145,153	145,153	140,120	140,120
Administration	2,250,224	2,089,970	2,481,207	2,224,074
Fiscal	613,039	613,039	692,747	629,195
Operation and Maintenance				
of Plant	3,629,112	3,379,824	4,978,253	4,905,283
Pupil Transportation	1,438,338	1,297,007	1,454,244	1,187,000
Central	680,339	675,054	1,395,001	1,380,674
Operation of				
Non-Instructional Services:				
Food Service Operations	2,291,347	190,819	2,033,551	91,370
Other	404,662	22,464	479,873	104,164
Extracurricular Activities	720,526	511,346	784,467	572,155
Interest	2,820,773	2,820,773	1,511,857	1,511,857
Totals	\$48,053,548	\$38,111,769	\$52,006,044	\$40,249,193

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. For 2012, only 21 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 79 percent is provided through taxes and entitlements.

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 in the amount of \$49,756,028 and expenditures in the amount of \$45,467,645.

General Fund

The fund balance of the General Fund at June 30, 2012 is \$6,193,007, an increase of \$4,326,067. The majority of this increase is primarily due to the change in the second half collection dates for Muskingum County to June 29, 2012. This change resulted in increasing the amount available as of June 30, 2012 which is recognized as revenue during fiscal year 2012.

Zanesville City School District, Ohio
Management's Discussion and Analysis
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Unaudited

Bond Retirement Debt Service Fund

The fund balance of the Bond Retirement Fund at June 30, 2012, is \$3,180,095, an increase of \$1,375,208 from the prior year. The majority of this increase is primarily due to the change in the second half collection dates for Muskingum County to June 29, 2012. This change resulted in increasing the amount available as of June 30, 2012 which is recognized as revenue during fiscal year 2012. The increase was also due to a decrease in debt service expenditures for 2012.

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 2012, 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 \$33,127,223. The original budget estimates were increased to a final budget amount of \$34,739,305 for the fiscal year. Actual revenues were \$185,442 less than final budgeted estimates.

The General Fund had original expenditure budget estimates of \$33,483,891. The original budget estimates were decreased to a final budget amount of \$34,156,673 for the fiscal year. Actual expenditures were \$224,642 below final budgeted estimates.

The School District's ending unobligated General Fund budgetary balance was \$39,200 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$85,095,101 invested in land, construction in progress, buildings and building improvements, improvements other than buildings, and furniture, fixtures, equipment, and vehicles. Table 4 shows fiscal year 2012 balances compared to 2011.

**Table 4 - Capital Assets
(Net of Depreciation)**

	Government Activities	
	2012	2011
Land	\$2,494,644	\$2,489,446
Construction in Progress	5,583	204,794
Buildings and Building Improvements	78,742,741	80,667,344
Improvements Other Than Buildings	2,157,321	1,815,133
Furniture, Fixtures, Equipment and Vehicles	1,694,812	1,738,438
Totals	\$85,095,101	\$86,915,155

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Management's Discussion and Analysis
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Unaudited

See Note 10 for more detailed information of the School District's capital assets.

Debt

At June 30, 2012, the School District had \$31,021,495 in bonds, accretion, and unamortized premium and discount outstanding.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities 2012	Governmental Activities 2011
2002 School Facilities		
Serial Bonds - 2.25-5.38%	\$620,000	\$1,430,000
Term Bonds - 4.75-5.38%	0	11,925,000
Capital Appreciation Bonds - 5.375%	172,393	172,393
Capital Appreciation Bonds Accretion	397,767	330,766
Serial / Term Bond Premium	0	24,430
Serial / Term Bond Discount	(2,541)	(113,533)
Capital Appreciation Bond Premium	36,428	54,642
Total School Facilities Bonds	1,224,047	13,823,698
2011 School Improvement Refunding Bonds		
Serial Bonds, \$16,680,000 @ 2.0%-5.0%	16,545,000	16,680,000
Capital Appreciation Bonds - 2.85%	41,759	41,759
Capital Appreciation Bonds Accretion	17,019	0
Refunding Difference \$1,542,328	0	(1,542,328)
Serial Bond Premium, \$806,489	748,883	806,489
Capital Appreciation Bond Premium, \$249,939	232,086	249,939
Total School Improvement Refunding Bonds	17,584,747	16,235,859
2012 Refunding Bonds		
Current Interest Bonds, \$10,000,000 @ 2.0%-3.5%	10,000,000	0
Capital Appreciation Bonds - 3.49% - 3.62%	1,910,000	0
Refunding Difference \$884,075	(631,482)	0
Current Interest Bond Premium \$123,740	123,740	0
Current Interest Bond Discount, \$145,026	(145,026)	0
Capital Appreciation Bond Accretion	15,781	0
Capital Appreciation Bond Premium, \$939,688	939,688	0
Total School Improvement Refunding Bonds	12,212,701	0
Total General Obligation Bonds	\$31,021,495	\$30,059,557

See Note 14 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, 2012
Unaudited

Economic Factors

The Zanesville City School District relies upon local property taxes and state foundation/grant monies to fund its operations. In fiscal year 2012, the School District received approximately 55 percent of its revenues from the state foundation program/grants and 22 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. On April 21, 2010, the School District was officially released from fiscal caution by the Ohio Department of Education. 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 become accustomed to.

The School District faces many challenges in today's environment and does not anticipate any meaningful growth in State revenue due to uncertainties surrounding the State budget and the State's unwillingness to adequately support school districts with higher property valuations per pupil. With this in mind, the School District implemented changes at the end of fiscal year 2011 that would reduce expenditures in the following years. These changes include closing one of two middle schools and a reduction in force of over 40 positions.

According to the most recent Board-approved five year forecast, the School District is projecting deficit spending beginning in fiscal year 2013.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, 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 Jolene Carter, Treasurer, Zanesville City School District, 160 N Fourth Street, Zanesville, Ohio 43701. Or email at carter@zanesville.k12.oh.us.

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Zanesville City School District, Ohio

Statement of Net Assets

June 30, 2012

	Primary Government	Component Unit
	Governmental Activities	Zanesville Community High School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,096,252	\$598,386
Cash and Cash Equivalents in Segregated Accounts	739,611	0
Cash and Cash Equivalents with Escrow Agents	116,269	0
Accounts Receivable	17,494	0
Inventory Held for Resale	16,029	0
Materials and Supplies Inventory	3,670	0
Accrued Interest Receivable	6,241	0
Prepaid Items	33,561	9,030
Due from Component Unit	105,093	0
Due from Primary Government	0	7,679
Revenue in Lieu of Taxes Receivable	8,600	0
Property Taxes Receivable	16,872,235	0
Intergovernmental Receivable	2,110,358	33,046
Deferred Charges	452,365	0
Nondepreciable Capital Assets	2,500,227	0
Depreciable Capital Assets, Net	82,594,874	0
<i>Total Assets</i>	<u>117,672,879</u>	<u>648,141</u>
Liabilities		
Matured Compensated Absences Payable	140,286	0
Accounts Payable	107,390	200
Retainage Payable	211,564	0
Accrued Wages and Benefits Payable	3,693,066	0
Due to Primary Government	0	105,093
Due to Component Unit	7,679	0
Vacation Benefits Payable	161,716	0
Accrued Interest Payable	141,965	0
Intergovernmental Payable	816,438	4,148
Claims Payable	593,769	0
Deferred Revenue	10,100,659	0
Long-Term Liabilities:		
Due Within One Year	604,288	0
Due In More Than One Year	32,183,189	0
<i>Total Liabilities</i>	<u>48,762,009</u>	<u>109,441</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	54,887,547	0
Restricted for:		
Classroom Facilities Maintenance	996,478	0
State Grants	1,186,347	0
Unclaimed Monies	3,682	0
Food Service	515,779	0
Capital Projects	362,740	0
Capital Projects - Ohio School Facilities Commission Project	1,138,299	0
Debt Service	3,483,745	0
Other Purposes	206,119	0
Unrestricted	6,130,134	538,700
<i>Total Net Assets</i>	<u>\$68,910,870</u>	<u>\$538,700</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Net Expense and Change in Net Assets					Component Unit
	Primary Government				Governmental Activities	
	Expenses	Charges for Services	Program Revenues Operating Grants, Contributions, and Interest	Capital Grants and Contributions		
Governmental Activities						
Instruction:						
Regular	\$18,294,491	\$1,670,717	\$912,259	\$0	(\$15,711,515)	\$0
Special	8,015,656	97,502	1,793,382	0	(6,124,772)	0
Vocational	470,970	0	57,679	0	(413,291)	0
Intervention	145,655	0	0	0	(145,655)	0
Support Services:						
Pupils	2,585,687	0	216,969	0	(2,368,718)	0
Instructional Staff	3,547,576	0	1,945,207	0	(1,602,369)	0
Board of Education	145,153	0	0	0	(145,153)	0
Administration	2,250,224	0	160,254	0	(2,089,970)	0
Fiscal	613,039	0	0	0	(613,039)	0
Operation and Maintenance of Plant	3,629,112	96,891	105,595	46,802	(3,379,824)	0
Pupil Transportation	1,438,338	0	141,331	0	(1,297,007)	0
Central	680,339	0	5,285	0	(675,054)	0
Operation of Non-Instructional Services:						
Food Service Operations	2,291,347	257,726	1,842,802	0	(190,819)	0
Other	404,662	87,444	294,754	0	(22,464)	0
Extracurricular Activities	720,526	185,828	23,352	0	(511,346)	0
Interest	2,820,773	0	0	0	(2,820,773)	0
Total Primary Government	\$48,053,548	\$2,396,108	\$7,498,869	\$46,802	(38,111,769)	0
Component Unit						
Zanesville Community High School	\$1,033,014	\$4,939	\$228,802	\$0	0	(799,273)

General Revenues

Property Taxes Levied for:

General Purposes	7,500,528	0
Debt Service	1,849,991	0
Classroom Facilities Maintenance	151,545	0
Payment in Lieu of Taxes	508	0
Grants and Entitlements not Restricted to Specific Programs	24,412,188	1,149,027
Investment Earnings	33,911	1,905
Gain on Sale of Capital Asset	4,000	0
Miscellaneous	159,135	592

Total General Revenues

34,111,806 1,151,524

Change in Net Assets

(3,999,963) 352,251

Net Assets Beginning of Year

(Restated, See note 3)

72,910,833 186,449

Net Assets End of Year

\$68,910,870 \$538,700

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2012

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,084,647	\$2,350,787	\$3,657,136	\$12,092,570
Cash and Cash Equivalents with Escrow Agents	0	0	116,269	116,269
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	3,682	0	0	3,682
Accounts Receivable	10,755	0	6,739	17,494
Accrued Interest Receivable	6,241	0	0	6,241
Intergovernmental Receivable	100,651	0	2,009,707	2,110,358
Inventory Held for Resale	0	0	16,029	16,029
Materials and Supplies Inventory	0	0	3,670	3,670
Interfund Receivable	136,981	0	0	136,981
Due from Component Unit	95,307	0	9,786	105,093
Prepaid Items	25,456	0	8,105	33,561
Revenue in Lieu of Taxes Receivable	7,468	1,046	86	8,600
Property Taxes Receivable	13,311,260	3,291,207	269,768	16,872,235
<i>Total Assets</i>	<u>\$19,782,448</u>	<u>\$5,643,040</u>	<u>\$6,097,295</u>	<u>\$31,522,783</u>
Liabilities				
Matured Compensated Absences Payable	\$139,763	\$0	\$523	\$140,286
Accounts Payable	78,296	0	29,094	107,390
Accrued Wages and Benefits Payable	2,879,098	0	813,968	3,693,066
Interfund Payable	0	0	136,981	136,981
Due to Component Unit	0	0	7,679	7,679
Retainage Payable	0	0	211,564	211,564
Intergovernmental Payable	576,230	0	240,208	816,438
Deferred Revenue	9,916,054	2,462,945	1,518,107	13,897,106
<i>Total Liabilities</i>	<u>13,589,441</u>	<u>2,462,945</u>	<u>2,958,124</u>	<u>19,010,510</u>
Fund Balances				
Non-Spendable				
Inventories	0	0	3,670	3,670
Prepays	25,456	0	8,105	33,561
Unclaimed Monies	3,682	0	0	3,682
Restricted for:				
Food Service Operations	0	0	545,947	545,947
Athletics and Music	0	0	82,980	82,980
Federal Grant Expenditures	0	0	26,462	26,462
State Grant Expenditures	0	0	87,388	87,388
Local Grant Expenditures	0	0	116,492	116,492
Scholarships	0	0	18,718	18,718
Debt Service	0	3,180,095	0	3,180,095
Capital Improvements	0	0	1,361,110	1,361,110
Classroom Facilities Maintenance	0	0	956,966	956,966
Committed	938,293	0	0	938,293
Assigned	61,689	0	139,929	201,618
Unassigned (Deficit)	5,163,887	0	(208,596)	4,955,291
<i>Total Fund Balances</i>	<u>6,193,007</u>	<u>3,180,095</u>	<u>3,139,171</u>	<u>12,512,273</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$19,782,448</u>	<u>\$5,643,040</u>	<u>\$6,097,295</u>	<u>\$31,522,783</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, 2012

Total Governmental Fund Balances	\$12,512,273
 <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.	85,095,101
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.	145,842
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds:	
Property Taxes Receivable	2,461,809
Revenue in Lieu of Taxes Receivable	8,600
Accounts Receivable	0
Intergovernmental Receivable	<u>1,326,038</u>
	3,796,447
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.	(161,716)
Unamortized issuance costs are reported as deferred charges on the statement of net assets but as an expenditure on the fund financial statements.	452,365
Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds.	(141,965)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	
Bonds Payable	(29,289,152)
Accretion	(430,567)
Bond Discount	147,567
Refunding Difference	631,482
Bond Premium	(2,080,825)
Capital Leases Payable	(105,419)
Compensated Absences	<u>(1,660,563)</u>
	<u>(32,787,477)</u>
Net Assets of Governmental Activities	<u><u>\$68,910,870</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, 2012

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$11,474,491	\$2,806,254	\$230,019	\$14,510,764
Payment in Lieu of Taxes	7,431	1,041	85	8,557
Intergovernmental	24,103,618	457,700	7,864,769	32,426,087
Interest	26,777	0	3,730	30,507
Tuition and Fees	1,551,730	0	0	1,551,730
Extracurricular Activities	21,643	0	251,629	273,272
Rentals	96,891	0	0	96,891
Charges for Services	216,691	0	257,726	474,417
Contributions and Donations	23,140	0	112,645	135,785
Miscellaneous	114,997	15,210	117,811	248,018
<i>Total Revenues</i>	<u>37,637,409</u>	<u>3,280,205</u>	<u>8,838,414</u>	<u>49,756,028</u>
Expenditures				
Current:				
Instruction:				
Regular	15,772,343	0	1,386,503	17,158,846
Special	5,737,873	0	1,833,481	7,571,354
Vocational	446,034	0	0	446,034
Intervention	144,091	0	0	144,091
Support Services:				
Pupils	2,224,817	0	222,223	2,447,040
Instructional Staff	995,554	0	2,238,924	3,234,478
Board of Education	126,766	0	0	126,766
Administration	1,862,505	0	187,290	2,049,795
Fiscal	554,247	48,768	3,997	607,012
Operation and Maintenance of Plant	3,154,660	0	213,199	3,367,859
Pupil Transportation	1,181,296	0	166,516	1,347,812
Central	585,078	0	89,084	674,162
Operation of Non-Instructional Services:				
Food Service Operations	7,922	0	1,988,167	1,996,089
Other	3,478	0	400,234	403,712
Extracurricular Activities	392,597	0	206,466	599,063
Capital Outlay	0	0	1,107,702	1,107,702
Debt Service:				
Principal Retirement	110,540	945,000	2,376	1,057,916
Interest and Fiscal Charges	11,541	911,229	84	922,854
Issuance Costs	0	205,060	0	205,060
<i>Total Expenditures</i>	<u>33,311,342</u>	<u>2,110,057</u>	<u>10,046,246</u>	<u>45,467,645</u>
<i>Excess of Revenues Over (Under) Expenditures:</i>	<u>4,326,067</u>	<u>1,170,148</u>	<u>(1,207,832)</u>	<u>4,288,383</u>
Other Financing Sources (Use)				
Proceeds from the Sale of Capital Assets	0	0	4,000	4,000
Refunding Bonds Issued	0	11,910,000	0	11,910,000
Premium on Refunding Bonds Issued	0	918,402	0	918,402
Payment to Refunded Bond Escrow Agent	0	(12,623,342)	0	(12,623,342)
<i>Total Other Financing Sources (Use)</i>	<u>0</u>	<u>205,060</u>	<u>4,000</u>	<u>209,060</u>
<i>Net Change in Fund Balances</i>	<u>4,326,067</u>	<u>1,375,208</u>	<u>(1,203,832)</u>	<u>4,497,443</u>
Fund Balances Beginning of Year	<u>1,866,940</u>	<u>1,804,887</u>	<u>4,343,003</u>	<u>8,014,830</u>
<i>Fund Balances End of Year</i>	<u>\$6,193,007</u>	<u>\$3,180,095</u>	<u>\$3,139,171</u>	<u>\$12,512,273</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, 2012

Net Change in Fund Balances - Total Governmental Funds		\$4,497,443
<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 depreciation exceeded capital outlay in the current period:		
Capital Asset Additions	1,031,514	
Depreciation Expense	<u>(2,851,568)</u>	(1,820,054)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the proceeds from the sale of capital assets and the loss on the sale of capital assets:		
Proceeds from the Sale of Capital Assets	(4,000)	
Gain on the Sale of Capital Assets	<u>4,000</u>	0
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.		
		(241,405)
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported as revenues and expenditures in the funds:		
Tuition and Fees	(202)	
Payment in Lieu of Taxes	(8,049)	
Miscellaneous	(88,883)	
Intergovernmental	(604,885)	
Support Services - Board of Education	(13,000)	
Delinquent Taxes	<u>(5,008,700)</u>	(5,723,719)
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.		
		(78,248)
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	3,364	
Compensated Absences Payable	<u>124,411</u>	127,775
Long-term debt proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets:		
Proceeds of General Obligation Refunding Bonds	(11,910,000)	
Bond Discount	145,026	
Bond Premium	<u>(1,063,428)</u>	(12,828,402)
Payment to refunded bond escrow agent is an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		12,623,342
Issuance costs are reported as an expenditure when paid in the governmental funds, but are deferred on the statement of net assets.		
		205,060
Repayment of principal and advance refundings are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
General Obligation Bonds	945,000	
Capital Leases	<u>112,916</u>	1,057,916
The amortization of premiums, discounts, and issuance costs are reported on the statement of activities:		
Premium Amortization	93,673	
Refunding Difference	(1,794,921)	
Issuance Costs Amortization	<u>(18,622)</u>	(1,719,870)
Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds.		
		<u>(99,801)</u>
Change in Net Assets of Governmental Activities		<u><u>(\$3,999,963)</u></u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$8,907,395	\$8,454,978	\$8,455,021	\$43
Payment in Lieu of Taxes	19,582	7,494	7,431	(63)
Intergovernmental	22,052,013	24,060,231	24,060,448	217
Interest	31,557	21,291	21,183	(108)
Tuition and Fees	1,535,308	1,543,452	1,541,844	(1,608)
Rentals	90,396	97,118	96,891	(227)
Contributions and Donations	8,605	24,416	23,140	(1,276)
Customer Sales and Services	350,275	408,124	219,161	(188,963)
Extracurricular Activities	23,385	21,470	21,643	173
Miscellaneous	108,707	100,731	107,101	6,370
<i>Total Revenues</i>	<u>33,127,223</u>	<u>34,739,305</u>	<u>34,553,863</u>	<u>(185,442)</u>
Expenditures				
Current:				
Instruction:				
Regular	15,410,487	16,030,561	16,024,901	5,660
Special	5,473,210	5,829,609	5,827,887	1,722
Vocational	424,007	458,017	456,940	1,077
Intervention	227,973	151,692	144,934	6,758
Support Services:				
Pupils	2,009,535	2,239,526	2,237,533	1,993
Instructional Staff	1,233,307	1,015,889	1,014,401	1,488
Board of Education	88,270	136,296	135,845	451
Administration	2,022,513	1,938,159	1,921,443	16,716
Fiscal	587,405	622,752	595,844	26,908
Operation and Maintenance of Plant	3,494,883	3,356,401	3,278,219	78,182
Pupil Transportation	1,431,784	1,252,881	1,259,475	(6,594)
Central	764,649	723,584	634,997	88,587
Other Non-Instructional Services	2,744	3,765	3,478	287
Extracurricular Activities	313,124	397,541	396,134	1,407
<i>Total Expenditures</i>	<u>33,483,891</u>	<u>34,156,673</u>	<u>33,932,031</u>	<u>224,642</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(356,668)</u>	<u>582,632</u>	<u>621,832</u>	<u>39,200</u>
Other Financing Sources				
Advances In	14,439	15,000	15,000	0
Proceeds from Sale of Capital Assets	15,998	15,998	15,998	0
<i>Total Other Financing Uses</i>	<u>30,437</u>	<u>30,998</u>	<u>30,998</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(326,231)</u>	<u>613,630</u>	<u>652,830</u>	<u>39,200</u>
Fund Balance Beginning of Year	5,238,002	5,238,002	5,238,002	0
Prior Year Encumbrances Appropriated	194,383	194,383	194,383	0
<i>Fund Balance End of Year</i>	<u>\$5,106,154</u>	<u>\$6,046,015</u>	<u>\$6,085,215</u>	<u>\$39,200</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, 2012

Current Assets	
Cash and Cash Equivalents in Segregated Accounts	\$739,611
Current Liabilities	
Claims Payable	<u>593,769</u>
Net Assets	
Unrestricted	<u><u>\$145,842</u></u>

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, 2012

Operating Revenues	
Charges for Services	\$6,883,909
Operating Expenses	
Purchased Services	692,827
Claims	<u>6,436,763</u>
<i>Total Operating Expenses</i>	<u>7,129,590</u>
<i>Operating Loss</i>	(245,681)
Non-Operating Revenue	
Interest Income	<u>4,276</u>
<i>Change in Net Assets</i>	(241,405)
<i>Net Assets at Beginning of Year</i>	<u>387,247</u>
<i>Net Assets at End of Year</i>	<u><u>\$145,842</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, 2012

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transactions with Other Funds	\$6,883,909
Cash Payments for Services	(721,174)
Cash Payments for Claims	<u>(6,510,806)</u>

Net Cash Used for Operating Activities (348,071)

Cash Flows from Investing Activities

Interest on Investments	<u>4,276</u>
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Net Decrease in Cash and Cash Equivalents (343,795)

Cash and Cash Equivalents Beginning of Year 1,083,406

Cash and Cash Equivalents End of Year \$739,611

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

Operating Loss	(\$245,681)
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Changes in Liabilities

Decrease in Accounts Payable	(28,347)
Decrease in Claims Payable	<u>(74,043)</u>

Net Cash Used for Operating Activities (\$348,071)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$26,285</u>
<i>Total Assets</i>	<u><u>\$26,285</u></u>
Liabilities	
Due to Students	\$21,710
Due to Others	<u>4,575</u>
<i>Total Liabilities</i>	<u><u>\$26,285</u></u>

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, 2012

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 164 classified employees and 244 certificated full-time teaching personnel and administrative employees providing education to 3,719 students. The School District currently operates five 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 Zanesville City 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.

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 City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 four 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), 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 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental 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.

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Bond Retirement Debt Service Fund The Bond Retirement Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

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.

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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, but which were levied to finance fiscal year 2013 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.

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 financial statements as "Cash and Cash Equivalents in Segregated Accounts" since it is not required to be deposited into the School District's treasury.

The School District has an escrow account for retainage on construction held separate from the School District's central bank account. This interest bearing depository account is presented on the financial statements as "Cash and Cash Equivalents with Escrow Agents" since it is not required to be deposited into the School District's treasury.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

During fiscal year 2012, the School District's investments were limited to federal agency securities and commercial paper. Investments in federal agency securities and commercial paper are stated at fair value based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$26,777, which includes \$10,409 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, 2012, 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.

The School District maintains a capitalization threshold of five thousand dollars. The School District currently capitalizes land, construction in progress, 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:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

<u>Description</u>	Governmental Activities Estimated Lives
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 School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "Vacation Benefits Payable", rather than long-term liabilities, as the balances for most employees are to be used by employees in the fiscal year following the fiscal year in which the benefit was earned. The School District records this 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.

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 incentives/special termination benefits, 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 and capital leases are recognized as a liability on the governmental fund financial statements when due.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

N. Fund Balance

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

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

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

O. Net 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 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

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 non-operating.

Note 3 - Changes in Accounting Principle and Restatement of Prior Year's Fund Balance/Net Assets

A. Changes in Accounting Principle

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53". GASB Statement No. 64 was issued to enhance

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

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comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this statement did not result in any change to the School District's financial statements.

B. Restatement of Prior Year's Net Assets

In fiscal year 2011, the School District's capital assets were overstated. During fiscal year 2012, the School District received documentation showing the reduction in grant revenues from the Ohio School Facilities Commission. The effect of these changes are as follows:

	Invested in Capital Assets			
	Net of Related Debt	Restricted	Unrestricted	Total
Net Assets at				
June 30, 2011	\$57,800,142	\$12,260,769	\$6,109,872	\$76,170,783
Restatements	(632,199)	(2,627,751)	0	(3,259,950)
Adjusted Net Assets at				
June 30, 2011	\$57,167,943	\$9,633,018	\$6,109,872	\$72,910,833

Note 4 - Accountability

At June 30, 2012, the following funds had a fund deficit:

	<u>Deficit Fund Balance</u>
<u>Special Revenue Funds:</u>	
Title VI-B Grant	\$69,978
Miscellaneous Federal Grants	135,761

The deficits in the Title VI-B Special Revenue Fund and the Miscellaneous Federal Grants Special Revenue Fund are due to the recognition of accrued liabilities in accordance with generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund 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).

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included on the budgetary statement, but reported on the operating statement prepared using GAAP.
5. Adjustments to record investments at market value are reported on the balance sheet (GAAP basis) but not on budget basis.

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

Net Change in Fund Balance	
GAAP Basis	\$4,326,067
Net Adjustment for Revenue Accruals	(3,064,345)
Net Adjustment for Expenditure Accruals	(529,862)
Beginning:	
Unrecorded Cash	0
Prepaid Items	(15,222)
Adjustment to fair value of investment	7,515
Ending:	
Prepaid Items	25,456
Adjustment to fair value of investment	(10,718)
Advances In	15,000
Adjustment for Encumbrances	<u>(101,061)</u>
Budget Basis	<u><u>\$652,830</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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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;
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 division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$5,988,226 of the School District's bank balance of \$10,469,987 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, 2012, the School District had the following investments. All investments are in an internal investment pool.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
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	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Association Notes	\$1,022,295	10/3/2016	Aaa	33.90%
Commercial Paper	1,993,534	12/3/2012	Aaa	66.10%

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.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. The percentage that each investment represents of total investments is listed in the table above.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum County. The County Auditor periodically advances to the School District its portion of taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2012, \$3,412,484 was available as an advance in the General Fund, \$829,308 in the Bond Retirement Debt Service Fund, and \$67,975 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2011, was \$393,014 in the General Fund, \$99,912 in the Bond Retirement Debt Service Fund, and \$8,190 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance increased in fiscal year 2012 due to the timing of the due dates for the Muskingum County second half tax bills.

On an 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.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$378,525,010	96.15%	\$393,787,570	96.12%
Public Utility Personal	14,516,160	3.69%	15,187,270	3.71%
General Business Personal	620,110	0.16%	710,004	0.17%
Total Assessed Value	<u>\$393,661,280</u>	<u>100.00%</u>	<u>\$409,684,844</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.15		\$50.15	

In February 2007, the School District passed a half mill Classroom Facilities Maintenance Levy.

Note 8 - Receivables

Receivables at June 30, 2012, consisted of property taxes, payment in lieu of taxes, accrued interest, accounts (rent, student fees and tuition), intergovernmental grants, and interfund receivable. 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 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 \$2,461,809 will not be collected within one year.

On July 2, 2007, the School District was originally 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. During fiscal year 2010 this amount was amended which resulted in an additional \$707,200 being awarded to the School District. As of the end of fiscal year 2012, the School District had received \$59,756,944 of the monies awarded under this program. As the projects are nearing completion, the School District has already

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

determined the remaining amount of \$2,627,751 will not be needed. (See Note 3 for prior period restatement.)

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
School Employees Retirement System Overpayment	\$7,630
Muskingum Valley ESC Reimbursement	12,488
Ohio University Reimbursement	1,920
Harrison Hills City School District Reimbursement	10,192
Tri-Rivers Educational Computer Association Reimbursement	450
Bureau of Workers' Compensation Refund	2,216
Medicaid Reimbursements	57,244
Muskingum County Juvenile Detention Center Services	2,275
Food Service	42,111
Erate	6,236
Race to the Top Grant	565,323
Public Preschool Grant	7,500
Early Childhood Special Education Grant	7,855
Title VI-B Grant	128,423
Title I Grant	795,876
Title II-A Grant	331,968
Reading Recovery Grant	2,520
21st Century Grant	127,411
Title II-D Grant	720
Total	<u>\$2,110,358</u>

Note 9 - Interfund Balances

At June 30, 2012, there was an interfund payable in the amount of \$108,665 to be repaid from the Miscellaneous Federal Grants Special Revenue Fund to the General Fund for cash deficits. The remaining amount of \$28,316, represents an actual advance from the General Fund to the District Managed Activities Special Revenue Fund. This resulted in an interfund receivable in the amount of \$136,981 in the General Fund. Advances are expected to be repaid during fiscal year 2013.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	(Restated)			
	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Nondepreciable Capital Assets				
Land	\$2,489,446	\$5,198	\$0	\$2,494,644
Construction in Progress	204,794	0	(199,211)	5,583
Total NonDepreciable Capital Assets	<u>2,694,240</u>	<u>5,198</u>	<u>(199,211)</u>	<u>2,500,227</u>
Depreciable Capital Assets				
Buildings and Building Improvements	88,736,320	638,497	0	89,374,817
Improvements Other Than Buildings	3,029,953	300,285	199,211	3,529,449
Furniture, Fixtures, Equipment and Vehicles	3,601,887	243,989	(156,455)	3,689,421
Total at Estimated Historical Cost	<u>95,368,160</u>	<u>1,182,771</u>	<u>42,756</u>	<u>96,593,687</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(8,068,976)	(2,563,100)	0	(10,632,076)
Improvements Other Than Buildings	(1,214,820)	(157,308)	0	(1,372,128)
Furniture, Fixtures, Equipment and Vehicles	(1,863,449)	(287,615)	156,455	(1,994,609)
Total Accumulated Depreciation	<u>(11,147,245)</u>	<u>(3,008,023) *</u>	<u>156,455</u>	<u>(13,998,813)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>84,220,915</u>	<u>(1,825,252)</u>	<u>199,211</u>	<u>82,594,874</u>
Governmental Activities Capital Assets, Net	<u>\$86,915,155</u>	<u>(\$1,820,054)</u>	<u>\$0</u>	<u>\$85,095,101</u>

*

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$1,096,779
Special Instruction	423,174
Vocational Instruction	21,256
Support Services:	
Pupils	158,884
Instructional Staff	313,590
Board of Education	5,387
Administration	208,059
Fiscal	1,253
Operation and Maintenance of Plant	269,108
Pupil Transportation	88,124
Central	3,823
Operation of Non-instructional Services:	
Food Service Operations	297,123
Extracurricular Activities	<u>121,463</u>
Total Depreciation Expense	<u>\$3,008,023</u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$723,085, \$436,372, and \$854,734, respectively. For fiscal year 2012, 61.13 percent has been contributed, with the remaining being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended 2012, 2011, and 2010, were \$1,679,452, \$1,883,176, and \$1,964,727, respectively. For fiscal year 2012, 83.06 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$10,904 made by the School District and \$7,789 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, there are two employees who have elected Social Security.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by 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 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$91,643, \$165,163, and \$13,090, respectively. For fiscal year 2012, 15.99 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$42,385, \$30,528, and \$45,779, respectively. For fiscal year 2012, 60.84 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, 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, 2012, 2011, and 2010, were \$130,027, \$145,974, and \$152,190, respectively. For fiscal year 2012, 83.06 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

Note 13 - 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. Vacation leave may be accumulated by employees up to one year's allocation. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 272 days for certified employees and up to 276 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

leave accumulation up to a maximum of 71 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. The benefit will be paid in one lump sum in January following the year of retirement. At June 30, 2012, there were no accruals for retirement incentives.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 14 - 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, 2012 is as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2002 School Facilities					
Serial Bonds - 2.25-5.38%	\$1,430,000	\$0	(\$810,000)	\$620,000	\$620,000
Term Bonds - 4.75-5.38%	11,925,000	0	(11,925,000)	0	0
Capital Appreciation Bonds - 5.375%	172,393	0	0	172,393	0
Capital Appreciation Bonds Accretion	330,766	67,001	0	397,767	0
Serial / Term Bond Premium	24,430	0	(24,430)	0	0
Serial / Term Bond Discount	(113,533)	0	110,992	(2,541)	0
Capital Appreciation Bond Premium	54,642	0	(18,214)	36,428	0
Total School Facilities Bonds	13,823,698	67,001	(12,666,652)	1,224,047	620,000
2011 School Improvement Refunding Bonds					
Serial Bonds, \$16,680,000 @ 2.0%-5.0%	16,680,000	0	(135,000)	16,545,000	0
Capital Appreciation Bonds - 2.85%	41,759	0	0	41,759	0
Refunding Difference \$1,542,328	(1,542,328)	0	1,542,328	0	0
Serial Bond Premium, \$806,489	806,489	0	(57,606)	748,883	0
Capital Appreciation Bond Accretion	0	17,019	0	17,019	0
Capital Appreciation Bond Premium, \$249,939	249,939	0	(17,853)	232,086	0
Total 2011 School Improvement Refunding Bonds	16,235,859	17,019	1,331,869	17,584,747	0
2012 Refunding Bonds					
Current Interest Bonds, \$10,000,000 @ 2.0%-3.5%	0	10,000,000	0	10,000,000	415,000
Capital Appreciation Bonds - 3.49% - 3.62%	0	1,910,000	0	1,910,000	0
Refunding Difference \$884,075	0	(884,075)	252,593	(631,482)	(631,482)
Current Interest Bond Premium \$123,740	0	123,740	0	123,740	0
Current Interest Bond Discount, \$145,026	0	(145,026)	0	(145,026)	0
Capital Appreciation Bond Accretion	0	15,781	0	15,781	0
Capital Appreciation Bond Premium, \$939,688	0	939,688	0	939,688	0
Total 2012 School Improvement Refunding Bonds	0	11,960,108	252,593	12,212,701	(216,482)
Total General Obligation Bonds	30,059,557	12,044,128	(11,082,190)	31,021,495	403,518
Capital Lease	218,335	0	(112,916)	105,419	89,058
Compensated Absences	1,784,974	131,871	(256,282)	1,660,563	111,712
Total Long-Term Obligations	\$32,062,866	\$12,175,999	(\$11,451,388)	\$32,787,477	\$604,288

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 2002 bond issue included serial, term, and capital appreciations bonds in the amounts of \$8,275,000, \$25,900,000, and \$239,576. The bonds were sold at a premium of \$337,819 and a discount of \$41,540. These bonds were partially advance refunded during fiscal years 2011 and 2012, and the remainder will be retired from the Bond Retirement Debt Service Fund with a levy passed by the voters. The non-refunded portion of the 2002 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 \$680,000. For fiscal year 2012, \$67,001 was accreted for a total bond liability of \$570,160.

On June 23, 2011, the School District issued \$16,721,759 in refunding bonds to retire \$16,722,183 of outstanding school improvement bonds. As of June 30, 2012, \$16,722,183 of the refunded bonds are still outstanding, and the balance of the irrevocable trust account was \$17,480,207.

The 2011 capital appreciation bonds mature on December 1, 2017. 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 \$350,000. For fiscal year 2012, \$17,019 was accreted for a total bond liability of \$58,778.

For the 2012 advance refunding, the amount amortized for the non-refunded portion of the premium, discount, and issuance costs were \$23,144, \$105,017, and \$99,171, respectively. In total, the premium was reduced by \$24,430, which includes \$1,286 for current year amortization and \$23,144 due to the refunding, and the discount was reduced by \$110,992, which includes \$5,975 for current year amortization and \$105,017 due to the refunding.

During fiscal year 2012, the School District made the scheduled repayment of serial bonds in the amount of \$810,000 and advance refunded the 2002 School Facilities General Obligation Term Bonds. The 2002 refunded bonds were originally issued for a twenty-five year period. On May 16, 2012, the School District issued \$11,910,000 of School Improvement General Obligation Refunding serial and capital appreciation bonds with varying interest rates of 2.0 percent to 3.5 percent. These refunding bonds were sold with a total premium of \$123,740 that will be amortized over the term of the bonds, and a total discount of \$145,026 that will be amortized over the term of the bonds. Issuance costs associated with the refunding bond issue, in the amount of \$205,060, are deferred and will be amortized over the term of the bonds. The refunding resulted in a partial advance refunding of the 2002 School Facilities Bonds in the amount of \$11,925,000. \$12,623,342, (after premium, discount, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2002 bonds. As a result of the partial refunding, \$11,910,000 of the refunded bonds is considered defeased and the liability is removed from the statement of net assets. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price in the amount of \$884,075. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense through fiscal year 2013. The School District completed its partial advance refunding to reduce its total debt service requirements over the next fourteen years by \$2,111,171 in order to obtain an economic gain of \$1,562,732. As of June 30, 2012, \$11,925,000 of the refunded bonds are still outstanding, and the balance of the irrevocable trust account was \$12,329,091.

The 2012 capital appreciation bonds mature on December 1, 2026. 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 \$2,765,000. For fiscal year 2012, \$15,781 was accreted for a total bond liability of \$1,925,781.

The School District's overall legal debt margin at June 30, 2012 was \$10,593,260 with an unvoted debt margin of \$408,975.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

As part of the bond issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of AA from Standard & Poor's for the bond issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

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, 2012, follows:

Fiscal Years	General Obligation Bonds		
	Principal	Interest	Total
2013	\$1,035,000	\$1,541,964	\$2,576,964
2014	172,393	1,431,382	1,603,775
2015	985,000	913,925	1,898,925
2016	1,230,000	891,775	2,121,775
2017	1,565,000	862,513	2,427,513
2018-2022	8,736,759	4,190,133	12,926,892
2023-2027	8,695,000	2,523,300	11,218,300
2028-2030	6,870,000	341,751	7,211,751
Totals	<u>\$29,289,152</u>	<u>\$12,696,743</u>	<u>\$41,985,895</u>

B. Capital Leases Payable

Capital leases will be paid from the General Fund and the Food Service Special Revenue Fund.

C. Compensated Absences

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

Note 15 - 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 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.

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	624,359
Current Year Offsets	(430,484)
Current Year Qualifying Disbursements	(193,875)
Total	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2012	<u>\$0</u>

The School District had qualifying expenditures and offsets during the fiscal year that reduced the capital improvements set-asides at zero, which may not be carried forward to future fiscal years. Effective July 1, 2011, House Bill 30, "The Unfunded Mandates Relief Act", eliminated the requirement that school districts annually set-aside an amount per pupil into a textbook and instructional materials fund.

Debt proceeds may be used to reduce the capital set aside reserve. The amount used each fiscal year is limited to the amount of revenue collected to service the debt or the set aside balance less any offsets and qualified expenditures. The fiscal year 2003 general obligation bond proceeds less the accumulated amount of debt proceeds used as an offset is carried forward to future fiscal years until consumed. The amount of debt proceeds that may be used as an offset in future fiscal years is \$15,337,533.

Note 16 - 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 2012, 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, 2012

Insurance Provider	Coverage	Limit of Insurance	Deductible
Ohio Casualty	Building and Personal Property Blanket	\$107,758,786	\$5,000
Ohio Casualty	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	\$300,000	
	Medical Expense Limit (Any One Person)	\$15,000	
Ohio Casualty	Commercial Inland Marine Coverage	\$1,524,578	\$1,000
Ohio Casualty	Commercial Auto Coverage:		
	Liability	\$1,000,000	
	Auto Medical Payments	\$1,000	
	Uninsured Motorists	\$50,000	
	Comprehensive	Cash Value	\$1,000
	Collision	Cash Value	\$1,000
Ohio Casualty	Commercial Crime Coverage:		
	Inside the Premises - Per occurrence	\$25,000	\$500
	Outside the Premises - Per messenger	\$25,000	\$500
	Forgery or Alteration - Per occurrence	\$100,000	\$500
	Employee Dishonesty - Per employee	\$100,000	\$500
Ohio Casualty	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	
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 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. 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, 2012

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 \$593,769 reported in the internal service fund at June 30, 2012, 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 \$6,556,152 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 two fiscal years 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>
2011	\$562,644	\$6,559,266	\$6,454,098	\$667,812
2012	667,812	6,436,763	6,510,806	593,769

Note 17 - Jointly Governed Organizations

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

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2012, the School District paid \$248,961 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. 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, 2012

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 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 School District participates in the insurance purchasing pool. 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 2012, the School District made a payment of \$1,740 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

D. 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 \$2,176 for fiscal year 2012. 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.

Note 18 - 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,

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2012, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, and dental coverage.

Note 19 - Contractual Obligations

As of June 30, 2012, the School District had contractual purchase commitments for construction services relating to the Phase II of the Ohio School Facilities Project (OSFC). The contract amount for these services is as follows:

Contractor	Project	Purchase Commitments	Amounts Paid as of 06/30/2012	Amounts Remaining on Contracts
Robertson Construction	High School Project	\$11,275,594	\$11,215,502	\$60,092
The Quandel Group Inc.	High School and Elementary Project	3,240,886	3,222,825	18,061
H&A Mechanical	North Elementary Project	1,800,292	1,780,609	19,683
Charter Hill Construction	South Elementary Project	5,346,979	5,149,854	197,125
H&A Mechanical	South Elementary Project	2,530,607	2,495,405	35,202
City Electric	South Elementary Project	1,138,469	1,117,802	20,667
		<u>\$25,332,827</u>	<u>\$24,981,997</u>	<u>\$350,830</u>

Note 20 - Capitalized Leases

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

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$89,058	\$6,207	\$95,265
2014	9,380	1,620	11,000
2015	6,981	353	7,334
Total	<u>\$105,419</u>	<u>\$8,180</u>	<u>\$113,599</u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

The switches and routers, copier, and busses were originally capitalized in the amount of \$489,371. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2012 totaled \$112,916 in the governmental funds.

Property under Capital Leases	\$489,371
Less: Accumulated Depreciation	<u>(210,705)</u>
Total June 30, 2012	<u><u>\$278,666</u></u>

Note 21 - Operating Leases Lessor Disclosure

During 2011, the District entered into a lease agreement with Mid-East Career and Technology Centers to rent the Rufus Putnam building. The term of the lease agreement is for thirty-six months, beginning on July 1, 2011 and ending on June 30, 2014, and will continue on a month-to-month basis thereafter. The terms of the agreement called for the School District to receive annual rent payments of \$80,000 on July 15 each year.

Note 22 - Related Party Transactions

For fiscal year 2012, the School District provided \$957,072 to the Zanesville Community High School, a discretely presented component unit, for administrative, fiscal, and student services. As of June 30, 2012, Zanesville Community High School has repaid all but \$105,093 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. As of June 30, 2012, Zanesville Community High School was due \$7,679 from Federal Lunch reimbursements. This amount is reflected as Due to Component Unit by the School District and as Due from Primary Government by the component unit.

Note 23 - 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.

Note 24 - Contingencies

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Zanesville City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. Litigation

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

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**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2011/2012	10.555	\$ 102,551	\$ 102,551
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	569,101	569,101
National School Lunch Program	2011/2012	10.555	1,073,155	1,073,155
Summer Food Service Program for Children	2011/2012	10.559	31,743	31,743
Cash Assistance Subtotal			<u>1,673,999</u>	<u>1,673,999</u>
Total Child Nutrition Cluster			1,776,550	1,776,550
Child and Adult Care Food Program	2011/2012	10.558	53,960	53,960
Total U.S. Department of Agriculture			1,830,510	1,830,510
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	2011	84.010	337,821	337,104
	2012		1,954,054	1,919,041
Total Title I Grants to Local Educational Agencies			<u>2,291,875</u>	<u>2,256,145</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	2011	84.389	141,401	209,088
Total Title I, Part A Cluster			2,433,276	2,465,233
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B)	2011	84.027		49,252
	2012		909,244	884,409
Total Special Education - Grants to States (IDEA, Part B)			<u>909,244</u>	<u>933,661</u>
Special Education - Preschool Grants	2011	84.173	(3,810)	
	2012		23,566	31,421
Total Special Education - Preschool Grants			<u>19,756</u>	<u>31,421</u>
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	2011	84.391	72,230	150,836
ARRA - Special Education - Preschool Grants, Recovery Act	2011	84.392	12,110	14,780
Total Special Education Cluster (IDEA)			1,013,340	1,130,698
Safe and Drug-Free Schools and Communities - State Grants	2012	84.186	10,000	10,000
Even Start - State Educational Agencies	2011	84.213	24,357	32,962
Twenty-First Century Community Learning Centers	2011	84.287	62,910	82,411
	2012		272,589	279,928
Total Twenty-First Century Community Learning Centers			<u>335,499</u>	<u>362,339</u>
Education Technology State Grants	2011	84.318	(1,845)	127
	2012		29,835	30,083
Total Education Technology State Grants			<u>27,990</u>	<u>30,210</u>

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education: (Continued)</i>				
Improving Teacher Quality State Grants	2011	84.367	\$ 42,203	\$ 67,685
	2012		<u>294,566</u>	<u>296,243</u>
Total Improving Teacher Quality State Grants			336,769	363,928
ARRA - Race to the Top, Recovery Act:				
Race to the Top Incentives Grant	2011	84.395	(24,310)	345
Race to the Top Incentives Grant	2012		96,310	109,530
Race to the Top Innovative Grant	2012		<u>120,000</u>	<u>198,996</u>
Total ARRA - Race to the Top, Recovery Act			192,000	308,871
Education Jobs Fund	2011	84.410	(72,667)	0
	2012		<u>977,395</u>	<u>977,395</u>
Total Education Jobs Fund			904,728	977,395
Total U.S. Department of Education			<u>5,277,959</u>	<u>5,681,636</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 7,108,469</u>	<u>\$ 7,512,146</u>

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amount from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Special Education - Preschool Grants	84.173	\$3,810
Education Technology State Grants	84.318	\$1,845
ARRA – Race to the Top, Recovery Act	84.395	\$24,310
Education Jobs Fund	84.410	\$72,667

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Dave Yost • Auditor of State

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

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, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2012-01.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 21, 2013.

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

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

Dave Yost
Auditor of State

February 21, 2013



Dave Yost • Auditor of State

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

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 could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2012. 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 opine on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with these 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 these requirements.

As described in finding 2012-02 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding cash management applicable to its ARRA - Race to the Top, Recovery Act; Special Education Cluster (IDEA); and Title I, Part A Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2012-02 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 also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 21, 2013.

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



Dave Yost
Auditor of State

February 21, 2013

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified - ARRA – Race to the Top, Recovery Act; Special Education Cluster (IDEA); Title I, Part A Cluster Unqualified – Nutrition Cluster; Education Jobs; Twenty-First Century Community Learning Centers
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster, CFDA Nos. 10.553, 10.555, and 10.559; Education Jobs Fund, CFDA No. 84.410; ARRA – Race to the Top, Recovery Act, CFDA No. 84.395; Twenty-First Century Community Learning Centers, CFDA No. 84.287; Title I, Part A Cluster, CFDA Nos. 84.010 and 84.389; Special Education Cluster (IDEA), CFDA Nos. 84.027, 84.173, 84.391 and 84.392
(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, 2012
(Continued)**

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

Finding Number 2012-01

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” Certificates – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.
2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a sum not exceeding an amount established by resolution adopted by members of the Board against any specific line item account not extending beyond the end of the fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate - The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The School District did not certify the availability of funds prior to purchase commitment for 24 percent of expenditures tested.

Prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments received prior approval. To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend the Treasurer certify that the funds are or will be available prior to an obligation being incurred by the School District. In rare instances when prior certification is not possible, “then and now” certification may be used.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

Finding Number 2012-01 (Continued)

Noncompliance Citation (Continued)

We recommend the School District certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification prior to the School District incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response: We did not receive a response from Officials for this finding.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-02
CFDA Title and Number	ARRA – Race to the Top, Recovery Act, CFDA No. 84.395; Title I, Part A Cluster , CDFA Nos. 84.010 and 84.389; Special Education Cluster (IDEA), CDFA Nos. 84.027, 84.173, 84.391, and 84.392;
Federal Award Number / Year	2011/2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation and Material Weakness – Cash Management

34 C.F.R. 80.21(c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. 34 C.F.R. 80.20(b)(7) states procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 C.F.R. 80.21). To receive approval consideration, cash requests must be made *for immediate needs for the month requested*. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the “Cash Management Act” 31 C.F.R. part 205, the time lapsed between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds must be expended within the period of time for which cash is requested.

ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number 2012-02 (Continued)

Noncompliance Citation and Material Weakness – Cash Management (Continued)

For the Race to the Top grant, two of six drawdowns (33%) were not spent by the end of the month as required by the Ohio Department of Education.

For the Title I Fund grant, nine of the thirty-six drawdowns (25%) were not spent by the end of the month as required by the Ohio Department of Education.

For the Special Education Fund grant, three of the fifteen drawdowns (20%) were not spent by the end of the month as required by the Ohio Department of Education.

Interest earned on excess funds was calculated to be less than \$100.

We recommend the Treasurer review fund balances periodically to ensure that all federal receipts are expended within the required period. We also recommend that the School District promptly remit total interest over \$100 per year that may have been earned on the advances to the Department of Education.

Officials' Response and Corrective Action Plan: Fund balances are reviewed several times a month. Every cash request is made with the intent of spending it all by the end of the month. Cash requests are generally made and received near the beginning of the month. There are times when unforeseen circumstances such as payroll adjustments or changes in a purchased service contract in the middle of the month can result in a balance at the end of the month.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	A material noncompliance citation with questioned costs was issued for the purchase of school buses with State Fiscal Stabilization grant funds contrary to ARRA Public Law 111-5 (H.B. 1) section 14003.b.	Yes	The District identified and charged other allowable expenses from the prior year to the State Fiscal Stabilization grant. No additional grant monies were received during the current audit period.
2011-02	A material noncompliance citation was issued under 34 C.F.R. 80.20(b)(7) for failure to timely expend advances of grant funds.	No	Not Corrected. See Finding 2012-02.

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Dave Yost • 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
MARCH 7, 2013