



**Auditor of State
Betty Montgomery**

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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**Auditor of State
Betty Montgomery**

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, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio, as of June 30, 2003 and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

August 26, 2004

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

Unaudited

The discussion and analysis of Zanesville City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- ❑ Net assets increased \$534,264, which represents a 8% increase from 2002.
- ❑ General revenues accounted for \$28,056,020 in revenue or 67.0% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,930,482 or 26.0% of total revenues of \$41,806,586. Special item revenue accounted for \$2,820,084 in revenue or 7% of all revenues.
- ❑ The District had \$41,272,322 in expenses related to governmental activities; only \$10,930,482 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$28,056,020 and Special item revenue of \$2,820,084 were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$30,142,244 in revenues and \$29,855,215 in expenditures. The General Fund's fund balance increased \$287,029 to \$1,071,996. The increase was due to a combination of factors including an increase in both intergovernmental and investment earnings revenues, as well as a decrease in capital expenditures. In addition, the General Fund received \$2,820,084 as a result of the sale of stock from the demutualization of an insurance provider.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
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Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
 - To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category of its activities:

- *Governmental Activities* – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government 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.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
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Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities
	2003
Current and other assets	\$51,585,904
Capital assets, Net	8,462,832
Total assets	60,048,736
Long-term debt outstanding	38,958,175
Other liabilities	14,171,059
Total liabilities	53,129,234
Net assets	
Invested in capital assets, net of related debt	6,424,682
Restricted	3,006,300
Unrestricted	(2,511,480)
Total net assets	\$6,919,502

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

	Governmental Activities
	2003
Revenues	
Program revenues:	
Charges for Services and Sales	\$1,704,728
Operating Grants and Contributions	8,990,144
Capital Grants and Contributions	235,610
General revenues:	
Property Taxes	10,556,822
Grants and Entitlements	16,236,575
Other	1,262,623
Total revenues	38,986,502
Program Expenses	
Instruction	23,659,948
Support Services:	
Pupils	1,751,483
Instructional Staff	2,289,563
Board of Education	90,301
Administration	3,321,184
Fiscal Services	546,976
Operation and Maintenance of Plant	3,341,485
Pupil Transportation	1,078,941
Central	696,896
Operation of Non-Instructional Services	1,843,675
Community Services	761,106
Extracurricular Activities	554,568
Debt Service:	
Interest and Fiscal Charges	1,336,196
Total expenses	41,272,322
Special Item Gain on Demutualization of Insurance Company	2,820,084
Total Change in Net Assets	534,264
Beginning Net Assets	6,385,238
Ending Net Assets	\$6,919,502

Governmental Activities

Net assets of the District's governmental activities increased by \$534,264. This was due to the gain on the demutualization of the insurance provider.

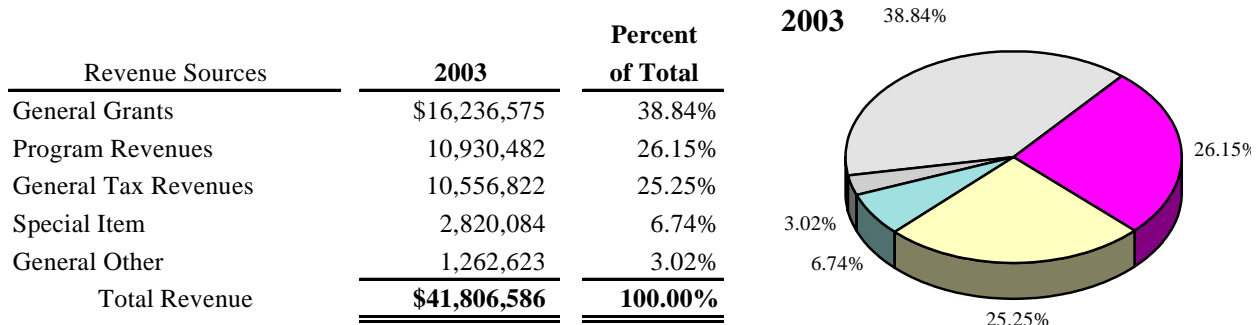
ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, 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 25.3% of revenues for governmental activities for Zanesville City Schools in fiscal year 2003. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$36,316,376, which is greater than last year's balance of \$2,525,604. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2003 and 2002.

	Fund Balance (Deficit) <u>June 30, 2003</u>	Fund Balance (Deficit) <u>June 30, 2002</u>	Increase (Decrease)
General	\$1,071,996	\$784,967	\$287,029
Building	32,394,650	(2,655)	32,397,305
Other Governmental	2,849,730	1,743,292	1,106,438
Total	\$36,316,376	\$2,525,604	\$33,790,772

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

Unaudited

General Fund – The District's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2003	2002	Increase
	Revenues	Revenues	(Decrease)
Taxes	\$9,376,396	\$12,587,981	(\$3,211,585)
Tuition	592,829	666,115	(73,286)
Investment Earnings	411,113	180,871	230,242
Extracurricular Activities	53	0	53
Class Materials and Fees	37,611	23,163	14,448
Intermediate Sources	5,130	17,438	(12,308)
Intergovernmental - State	17,144,669	16,425,360	719,309
Intergovernmental - Federal	873	1,785	(912)
All Other Revenue	14,253	93,655	(79,402)
	\$27,582,927	\$29,996,368	(\$2,413,441)
Total	\$27,582,927	\$29,996,368	(\$2,413,441)

General Fund revenues in 2003 decreased approximately 8% compared to revenues in fiscal year 2002. The primary factors contributing to this decrease included the absence of a property tax advance during the year and a delay in the billing and receipt of excess costs billed to other districts.

	2003	2002	Increase
	Expenditures	Expenditures	(Decrease)
Instruction	\$18,581,704	\$18,135,254	\$446,450
Supporting Services:			
Pupils	1,371,718	1,334,325	37,393
Instructional Staff	960,031	1,017,322	(57,291)
Board of Education	90,301	58,588	31,713
Administration	3,008,372	3,028,926	(20,554)
Fiscal Services	521,043	595,481	(74,438)
Operation & Maintenance of Plant	3,264,501	3,202,583	61,918
Pupil Transportation	936,707	1,104,382	(167,675)
Central	585,164	473,806	111,358
Operation of Non-Instructional Services	5,222	3,541	1,681
Community Services	131,675	139,241	(7,566)
Extracurricular Activities	320,350	307,055	13,295
Capital Outlay	46,241	166,379	(120,138)
	\$29,823,029	\$29,566,883	\$256,146
Total	\$29,823,029	\$29,566,883	\$256,146

The expenditures increased by \$256,146 or .87% compared to the prior year mostly due to increased utility charges, higher costs associated with the operation of the District's computer network and expenses related to additional students being enrolled in community schools and digital schools.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
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	2003	2002	Increase
	Other Financing Sources (Uses)	Other Financing Sources (Uses)	Other Financing Sources (Uses)
Gain on Demutualization of Insurance Provider	\$2,395,084	\$0	\$2,395,084
Transfers Out	(32,145)	(30,000)	(2,145)
Refund of Prior Year Expenditure	164,233	31,912	132,321
Refund of Prior Year Receipts	(41)	0	(41)
Other Financing Sources-Capital Lease	0	71,518	(71,518)
Proceeds from the Sale of Fixed Asset	0	620	(620)
Total	\$2,527,131	\$74,050	\$2,453,081

The District reported a large increase in Other Financing Sources and Uses. This increase was the result of proceeds from the sale of stock received as a result of the demutualization of Anthem Blue Cross Blue Shield Insurance Company. See note 17 for additional information.

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

During the course of fiscal year 2003 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$29.2 million, above original budget estimates of \$29.1 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003 the District had \$8,462,832 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2002 and 2003 balances:

	Governmental Activities	Increase (Decrease)	
	2003	2002	
Land	\$1,017,064	\$761,515	\$255,549
Construction in Progress	1,906,725	0	1,906,725
Buildings and Improvements	15,244,931	15,244,931	0
Machinery and Equipment	415,278	340,638	74,640
Vehicles	1,284,688	1,282,527	2,161
Less: Accumulated Depreciation	(11,405,854)	(11,050,939)	(354,915)
Totals	\$8,462,832	\$6,578,672	\$1,884,160

The primary increase occurred in construction in progress. The machinery and equipment increase was the result of the District purchasing various items, including several copiers. The land increase was the result of the district purchasing 17 acres of real estate. Additional information on the District's capital assets can be found in Note 9.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

Unaudited

Debt

At June 30, 2003, the District had \$34.9 million in bonds outstanding, \$122,172 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2003:

	<u>2003</u>	<u>2002</u>
Governmental Activities:		
General Obligation Bonds:		
Energy Conservation	\$186,000	\$279,000
School Improvement	34,707,239	0
Capital Leases Payable	13,568	25,261
Compensated Absences	4,051,369	4,166,981
Totals	<u>\$38,958,176</u>	<u>\$4,471,242</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2003, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 12.

ECONOMIC FACTORS

The Zanesville City School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2003 the District received approximately 51% of its revenues from the state foundation program and 35% from local property taxes. House Bill 95, passed June 25, 2003 changed numerous calculations used in the state's SF3 foundation formula, and impacted the District as follows:

<u>Description</u>	<u>Resulting Net Loss to the District</u>
Elimination of the 3-year average daily membership	\$245,406
Changing the average daily membership amount from \$5,088 to \$5,058	119,940
Changing the excess cost supplement calculation from 3.0 mills to 3.3 mills	113,220
Parity aide paid at 58% instead of 60%	39,475
Changing the cost of doing business factor	35,943

As a result, the 5-year budget for fiscal years 2004-2009 forecasts a deficit at the end of fiscal year 2005. The District's management has started the process of reviewing programs and services to address the projected deficit. An additional levy may also be necessary in the very near future. In conclusion, the Zanesville City School District has committed itself to financial prudence in the years to come.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003***

Unaudited

In May of 2002, the District passed a \$35,413,672 bond issue for school facility construction and improvements. It was part of the Expedited Local Partnership Plan with the Ohio School Facilities Commission. Phase one construction, which will begin in 2004, consists of the construction of two junior high schools and one elementary school. Phase two construction, which will begin in 2006, consists of the construction of one senior high school and four elementary schools at a cost of \$62,504,054.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Cindy Nye, Treasurer of Zanesville City School District.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

Unaudited

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ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2003***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 11,010,303
Investments	25,710,653
Receivables:	
Taxes	12,745,388
Accounts	59,323
Intergovernmental	776,382
Interest	173,396
Inventory of Supplies at Cost	24,694
Deferred Charge	290,476
Prepaid Items	123,127
Restricted Assets:	
Cash and Cash Equivalents	672,162
Capital Assets Not Being Depreciated	2,923,789
Capital Assets Being Depreciated, Net	5,539,043
Total Assets	60,048,736
Liabilities:	
Accounts Payable	273,331
Accrued Wages and Benefits	4,539,094
Intergovernmental Payable	1,118,761
Contracts Payable	323,692
Deferred Revenue - Taxes	7,781,899
Accrued Interest Payable	134,282
Long Term Liabilities:	
Due Within One Year	241,886
Due in More Than One Year	38,716,289
Total Liabilities	53,129,234
Net Assets:	
Invested in Capital Assets, Net of Related Debt	6,424,682
Restricted For:	
Capital Projects	432,928
Debt Service	1,108,325
Other Purposes	1,465,047
Unrestricted (Deficit)	(2,511,480)
Total Net Assets	\$ 6,919,502

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 23,659,948	\$ 920,477	\$ 5,065,879	\$ 0	\$ (17,673,592)
Support Services:					
Pupils	1,751,483	0	395,601	0	(1,355,882)
Instructional Staff	2,289,563	0	1,279,153	0	(1,010,410)
Board of Education	90,301	0	0	0	(90,301)
Administration	3,321,184	0	325,616	0	(2,995,568)
Fiscal Services	546,976	0	0	0	(546,976)
Operation and Maintenance of Plant	3,341,485	0	124,615	176,883	(3,039,987)
Pupil Transportation	1,078,941	0	95,695	58,727	(924,519)
Central	696,896	0	58,695	0	(638,201)
Operation of Non-Instructional Services	1,843,675	627,173	1,068,734	0	(147,768)
Community Services	761,106	0	575,267	0	(185,839)
Extracurricular Activities	554,568	157,078	889	0	(396,601)
Debt Service:					
Interest and Fiscal Charges	1,336,196	0	0	0	(1,336,196)
Totals	<u>\$ 41,272,322</u>	<u>\$ 1,704,728</u>	<u>\$ 8,990,144</u>	<u>\$ 235,610</u>	<u>\$ (30,341,840)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					8,830,977
Debt Service					1,725,845
Grants and Entitlements not Restricted to Specific Programs					16,236,575
Investment Earnings					1,082,513
Miscellaneous					180,110
Total General Revenues					<u>28,056,020</u>
Special Item: Gain on Demutualization of Insurance Company					2,820,084
Change in Net Assets					534,264
Net Assets Beginning of Year (Restated - See Note 2)					<u>6,385,238</u>
Net Assets End of Year					<u>\$ 6,919,502</u>

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Balance Sheet Governmental Funds June 30, 2003

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 1,194,065	\$ 7,007,689	\$ 2,808,549	\$ 11,010,303
Investments	0	25,710,653	0	25,710,653
Receivables:				
Taxes	10,539,139	0	2,206,249	12,745,388
Accounts	59,280	0	43	59,323
Intergovernmental	28,082	0	748,300	776,382
Interest	173,396	0	0	173,396
Interfund Loan Receivable	8,745	0	0	8,745
Inventory Held for Resale	0	0	24,694	24,694
Prepaid Items	121,092	0	2,035	123,127
Restricted Assets:				
Cash and Cash Equivalents	672,162	0	0	672,162
Total Assets	\$ 12,795,961	\$ 32,718,342	\$ 5,789,870	\$ 51,304,173
Liabilities:				
Accounts Payable	\$ 96,253	\$ 0	\$ 177,078	\$ 273,331
Accrued Wages and Benefits	3,511,772	0	1,027,322	4,539,094
Intergovernmental Payable	646,056	0	168,052	814,108
Contracts Payable	0	323,692	0	323,692
Interfund Loans Payable	0	0	8,745	8,745
Deferred Revenue - Taxes	7,427,846	0	1,394,766	8,822,612
Deferred Revenue	42,038	0	164,177	206,215
Total Liabilities	11,723,965	323,692	2,940,140	14,987,797
Fund Balances:				
Reserved for Encumbrances	283,739	0	382,888	666,627
Reserved for Prepaid Items	121,092	0	2,035	123,127
Reserved for Supplies Inventory	0	0	24,694	24,694
Reserved for Debt Service	0	0	300,658	300,658
Reserved for Property Taxes	3,111,293	0	811,483	3,922,776
Statutory Reserves	672,162	0	0	672,162
Unreserved, Undesignated in:				
General Fund (Deficit)	(3,116,290)	0	0	(3,116,290)
Special Revenue Funds	0	0	905,354	905,354
Capital Projects Funds	0	32,394,650	422,618	32,817,268
Total Fund Balances	1,071,996	32,394,650	2,849,730	36,316,376
Total Liabilities and Funds Balances	\$ 12,795,961	\$ 32,718,342	\$ 5,789,870	\$ 51,304,173

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2003

Total Governmental Fund Balances \$ 36,316,376

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 8,462,832

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 1,246,928

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

General Obligation Bonds Payable	(34,590,958)	
Compensated Absences Payable	(4,051,369)	
Capital Leases Payable	(13,568)	
Accrued Interest Payable	(146,086)	
Pension Obligation	(304,653)	
		(39,106,634)

Net Assets of Governmental Activities \$ 6,919,502

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, 2003

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 9,376,396	\$ 0	\$ 1,837,176	\$ 11,213,572
Tuition	592,829	0	167,779	760,608
Investment Earnings	411,113	142,594	486,768	1,040,475
Food Services	0	0	569,336	569,336
Extracurricular Activities	53	0	183,688	183,741
Class Materials and Fees	37,611	0	0	37,611
Intermediate Sources	5,130	0	339,290	344,420
Intergovernmental - State	17,144,669	0	2,778,883	19,923,552
Intergovernmental - Federal	873	0	5,057,669	5,058,542
All Other Revenue	14,253	0	210,392	224,645
Total Revenue	27,582,927	142,594	11,630,981	39,356,502
Expenditures:				
Current:				
Instruction	18,581,704	0	4,678,464	23,260,168
Supporting Services:				
Pupils	1,371,718	0	362,112	1,733,830
Instructional Staff	960,031	0	1,300,007	2,260,038
Board of Education	90,301	0	0	90,301
Administration	3,008,372	0	296,872	3,305,244
Fiscal Services	521,043	0	19,818	540,861
Operation & Maintenance of Plant	3,264,501	0	85,739	3,350,240
Pupil Transportation	936,707	0	40,860	977,567
Central	585,164	0	92,650	677,814
Operation of Non-Instructional Services	5,222	0	1,828,448	1,833,670
Community Services	131,675	0	622,643	754,318
Extracurricular Activities	320,350	0	219,556	539,906
Capital Outlay	46,241	2,162,274	126,815	2,335,330
Debt Service:				
Principal Retirement	0	0	93,000	93,000
Interest & Fiscal Charges	0	293,874	1,203,458	1,497,332
Total Expenditures	29,823,029	2,456,148	10,970,442	43,249,619
Excess (Deficiency) of Revenues Over Expenditures	(2,240,102)	(2,313,554)	660,539	(3,893,117)
Other Financing Sources (Uses):				
Proceeds from the Sale of Bonds	0	34,414,581	0	34,414,581
Transfers In	0	0	32,145	32,145
Transfers Out	(32,145)	0	0	(32,145)
Refund of Prior Year Expenditure	164,233	0	2,419	166,652
Refund of Prior Year Receipts	(41)	0	(21,321)	(21,362)
Bond Premium	0	337,818	0	337,818
Bond Discount	0	(41,540)	0	(41,540)
Total Other Financing Sources (Uses)	132,047	34,710,859	13,243	34,856,149
Special Item:				
Gain on Demutualization of Insurance Provider	2,395,084	0	425,000	2,820,084
Net Change in Fund Balance	287,029	32,397,305	1,098,782	33,783,116
Fund Balances (Deficits) at Beginning of Year	784,967	(2,655)	1,743,292	2,525,604
Increase (Decrease) in Inventory Reserve	0	0	7,656	7,656
Fund Balances End of Year	\$ 1,071,996	\$ 32,394,650	\$ 2,849,730	\$ 36,316,376

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 33,783,116

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

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

Capital Outlay	2,477,242	
Depreciation Expense	<u>(593,082)</u>	
		1,884,160

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (515,290)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

(34,300,265)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (144,765)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(153,226)	
Pension Obligation (Intergovernmental Payable)	(27,122)	
Change in Inventory	<u>7,656</u>	
		<u>(172,692)</u>

Change in Net Assets of Governmental Activities **\$ 534,264**

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 8,538,107	\$ 8,538,107	\$ 8,604,914	\$ 66,807
Tuition	765,543	765,543	592,829	(172,714)
Investment Earnings	207,000	207,000	288,045	81,045
Extracurricular Activities	3,500	0	53	53
Class Material and Fees	41,300	35,800	37,492	1,692
Intermediate Sources	15,000	15,000	5,130	(9,870)
Intergovernmental - State	17,310,857	17,310,857	16,989,247	(321,610)
Intergovernmental - Federal	1,000	1,000	1,318	318
All Other Revenues	2,129,000	2,129,000	2,442,154	313,154
Total Revenues	29,011,307	29,002,307	28,961,182	(41,125)
Expenditures:				
Current:				
Instruction	18,510,497	18,510,497	18,675,892	(165,395)
Support Services:				
Pupils	1,328,876	1,328,876	1,357,357	(28,481)
Instructional Staff	1,148,137	1,148,137	992,313	155,824
Board of Education	79,850	79,850	77,368	2,482
Administration	3,064,990	3,064,990	3,177,467	(112,477)
Fiscal Services	580,998	580,998	537,991	43,007
Operation and Maintenance of Plant	3,467,514	3,467,514	3,459,056	8,458
Pupil Transportation	1,104,002	1,104,002	1,087,015	16,987
Central	591,105	591,105	596,345	(5,240)
Operation of Non-Instructional Services	7,770	7,770	5,414	2,356
Community Services	141,606	141,606	141,610	(4)
Extracurricular Activities	332,761	332,761	319,776	12,985
Capital Outlay	100,000	100,000	0	100,000
Total Expenditures	30,458,106	30,458,106	30,427,604	30,502

(Continued)

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

***Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2003 (Continued)***

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,446,799)	(1,455,799)	(1,466,422)	(10,623)
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets	1,000	1,000	0	(1,000)
Transfers Out	(71,339)	(71,339)	(32,145)	39,194
Refund of Prior Year's Expenditures	52,795	52,795	244,144	191,349
Refund of Prior Year's Receipts	(41)	(41)	(41)	0
Total Other Financing Sources (Uses):	(17,585)	(17,585)	211,958	229,543
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,464,384)	(1,473,384)	(1,254,464)	218,920
Fund Balance at Beginning of Year	2,388,725	2,388,725	2,388,725	0
Prior Year Encumbrances	380,175	380,175	380,175	0
Fund Balance at End of Year	\$ 1,304,516	\$ 1,295,516	\$ 1,514,436	\$ 218,920

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Statement of Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust Fund	Agency Funds	Total
Assets:			
Cash and Cash Equivalents	\$ 8,040	\$ 26,406	\$ 34,446
Total Assets	<u>8,040</u>	<u>26,406</u>	<u>34,446</u>
Liabilities:			
Due to Others	0	1,451	1,451
Due to Students	<u>0</u>	<u>24,955</u>	<u>24,955</u>
Total Liabilities	<u>0</u>	<u>26,406</u>	<u>26,406</u>
Net Assets:			
Unrestricted	<u>8,040</u>	<u>0</u>	<u>8,040</u>
Total Net Assets	<u>\$ 8,040</u>	<u>\$ 0</u>	<u>\$ 8,040</u>

See accompanying notes to the basic financial statements

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	<u>Private Purpose Trust Fund</u>
Additions:	
Contributions:	
Dues and Fees	\$ 109
Private Donations	<u>3,481</u>
Total Additions	<u>3,590</u>
Deductions:	
Administrative Expenses	1,924
Community Gifts, Awards and Scholarships	<u>1,000</u>
Total Deductions	<u>2,924</u>
Change in Net Assets	666
Net Assets at Beginning of Year	<u>7,374</u>
Net Assets End of Year	<u><u>\$ 8,040</u></u>
See accompanying notes to the basic financial statements	

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Zanesville City School District, Ohio (the 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 District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 216 classified and approximately 420 certified teaching personnel and administrative employees providing education to 4,282 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the District's major governmental funds:

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Building Fund - This fund is used to account for the construction of new school facilities of the District.

Fiduciary Funds

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary 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 District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District's trust fund is a private-purpose trust that accounts for scholarship programs for students. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. The governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. 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 District.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Under the modified accrual basis, the following revenue considered susceptible to accrual at year end includes property taxes available for advance, income taxes, tuition, grants and entitlements, student fees, and interest on investments.

Current property taxes measurable at June 30, 2003, and which are not intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2003 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to April 1, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2003.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	\$287,029
Increase (Decrease):	
Accrued Revenues at June 30, 2003, received during FY 2004	(3,330,011)
Accrued Revenues at June 30, 2002, received during FY 2003	2,391,128
Accrued Expenditures at June 30, 2003, paid during FY 2004	4,254,081
Accrued Expenditures at June 30, 2002, paid during FY 2003	(4,418,939)
FY 2002 Prepays for FY 2003	40,878
FY 2003 Prepays for FY 2004	(121,092)
Encumbrances Outstanding at June 30, 2003	(357,538)
Budget Basis	<u>(\$1,254,464)</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

During fiscal year 2003, cash and cash equivalents included amounts in demand deposits, repurchase agreements and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

The District pools its cash for investment and resource management purposes. Each fund's cash and cash equivalents on the balance sheet represents the balance on hand as if each fund maintained its own cash account. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost. See Note 4, "Cash, Cash Equivalents and Investments."

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

H. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventory is stated at cost (first-in, first-out) in the governmental funds. The costs of inventory items are recorded as expenditures in the governmental when purchased.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

The accounting and reporting treatment applied to capital assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$5000.

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Estimated historical costs for governmental activities capital asset values were initially determined at June 30, 1993 by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Buildings and Improvements	15-40
Machinery and Equipment	5-20
Vehicles	7

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bond	Bond Retirement Fund
Capital Leases	General Fund
Compensated Absences	General Fund, Title I Fund, Food Services Fund

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the termination method. Employees may earn 15 days of sick leave per year up to a maximum of 260 days. Upon retirement, employees will receive one-fourth of the accumulated sick leave up to a maximum of between 60 and 65 days depending upon their job classification. In addition, teachers may earn an additional day of sick leave compensation for each year that they served with perfect attendance. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

L. 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flow 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. Repayment from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve, a reserve for textbook purchases and a reserve for capital maintenance. These reserves are required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. Fund balance reserves have also been established for these amounts.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for debt service, prepaid items, property taxes, inventory of supplies and materials, budget stabilization and encumbered amounts which have not been accrued at year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute. The reserve for budget stabilization is required by State statute for a refund from the Bureau of Workers' Compensation.

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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 is reported in the year in which services are consumed.

S. 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.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Prior Period Adjustments

During the fiscal year ended June 30, 2003, the District adopted a capitalization threshold of \$5,000, which resulted in a restatement to the governmental activities capital assets.

B. Changes in Accounting Principles

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."

The compensated absences balance was restated and four proprietary funds were reclassified as governmental funds.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by conversion to the accrual basis of accounting.

C. Restatement of Fund Balance/Retained Earnings

The changes to the beginning retained earnings/fund balance, as well as the transition from fund balance to net assets of the governmental activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fund Balance/Retained Earnings June 30, 2002	\$2,063,748	\$323,682
Adjustments:		
Fund Reclassifications	461,856	(323,682)
Total Prior Period Adjustments	<u>461,856</u>	<u>(323,682)</u>
GASB 34 Adjustments:		
Capital Assets	6,578,672	0
Long-Term Liabilities	(4,481,256)	0
Long-Term (Deferred) Assets	<u>1,762,218</u>	<u>0</u>
Net Assets, June 30, 2002	<u>\$6,385,238</u>	<u>\$0</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

The fund deficits at June 30, 2003 of \$14,783 in the Latchkey Fund, \$176,815 in the Disadvantaged Pupil Impact Aid Fund and \$3,846 in the Title VI-B Fund (special revenue funds) arose from the recognition of expenditures under the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis of accounting. Deficits did not exist under the budgetary basis.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, certain investments are separately held by the District's Building Fund.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAROhio).
- Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon confirmation of transfer from the custodian.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*" collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements *For the Fiscal Year Ended June 30, 2003*

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

A. Deposits

At year end the carrying amount of the District's deposits was \$11,318,967 and the bank balance was \$11,371,490. Of the bank balance, \$300,000 was insured by the Federal Deposit Insurance Corporation (FDIC). In accordance with Ohio Revised Code, the remaining balance was covered by pooled collateral.

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ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

B. Investments

The District's investments at June 30, 2003 were as follows:

<u>Federal Securities</u>	<u>Category 2</u>	<u>Fair Value</u>	<u>Rate</u>	<u>Maturity</u>
Federal Home Loan Bank Bonds	\$644,963	\$644,963	5.10%	02/05/04
Federal Home Loan Mortgage Corp. Notes	1,350,442	1,350,442	3.50%	02/20/04
Federal Home Loan Mortgage Corp. Notes	2,086,551	2,086,551	3.13%	05/20/04
Federal National Mortgage Association Notes	1,951,833	1,951,833	3.28%	07/15/04
Federal Home Loan Bank Bonds	2,477,563	2,477,563	2.25%	08/13/04
Federal National Mortgage Association Notes	2,292,747	2,292,747	3.50%	09/15/04
Federal Home Loan Bank Bonds	1,801,692	1,801,692	1.43%	11/19/04
Federal Home Loan Bank Bonds	<u>1,936,219</u>	<u>1,936,219</u>	2.25%	04/22/05
Total Federal Securities	14,542,010	14,542,010		
 <u>Non-Categorized Investments</u>				
Repurchase Agreement	242,085	242,085	N/A	N/A
STAROhio	N/A	6,983,389	N/A	N/A
Money Market Mutual Funds	N/A	<u>4,341,113</u>	N/A	N/A
Total Investments	<u>\$14,784,095</u>	<u>\$26,108,597</u>		

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per GASB Statement 9	\$11,716,911	\$25,710,653
Certificates of Deposits (not part of the District's cash management pool)	11,168,643	(11,168,643)
Investments:		
Repurchase Agreement	(242,085)	242,085
STAROhio	(6,983,389)	6,983,389
Money Market Mutual Funds	<u>(4,341,113)</u>	<u>4,341,113</u>
Per GASB Statement No. 3	<u>\$11,318,967</u>	<u>\$26,108,597</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Zanesville City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2003, upon which the 2002 levies were based, were as follows:

	2002 Second Half Collections	2003 First Half Collections
Agricultural/Residential and Other Real Estate	\$304,187,850	\$305,386,850
Public Utility Personal	16,379,990	17,181,330
Tangible Personal Property	57,679,930	54,937,940
Total Assessed Value	<u>\$378,247,770</u>	<u>\$377,506,120</u>
Taxrate per \$1,000 of assessed valuation	\$43.90	\$49.63

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, interest, accounts receivable and intergovernmental receivables.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 7 - INTERFUND BALANCES

Individual interfund receivable and payable balances at June 30, 2003, are as follows:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$8,745	\$0
Nonmajor Governmental Funds:		
Rotary Fund	0	3,000
Drug Free School Grant Fund	0	5,745
Total Nonmajor Governmental Funds	0	8,745
Totals	<u>\$8,745</u>	<u>\$8,745</u>

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2003:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$32,145
Nonmajor Governmental Funds:		
District Managed Student Activity Fund	32,145	0
Total Nonmajor Governmental Funds	32,145	0
Totals	<u>\$32,145</u>	<u>\$32,145</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 9 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2003:

Class	Restated June 30, 2002	Additions	Deletions	June 30, 2003
Capital assets, not being depreciated:				
Land	\$761,515	\$255,549	\$0	\$1,017,064
Construction in Progress	0	1,906,725	0	1,906,725
Total Capital assets, not being depreciated:	761,515	2,162,274	0	2,923,789
Capital assets being depreciated:				
Buildings and Improvements	15,244,931	0	0	15,244,931
Machinery and Equipment	340,638	74,640	0	415,278
Vehicles	1,282,527	22,800	(20,639)	1,284,688
Total capital assets being depreciated	16,868,096	97,440	(20,639)	16,944,897
Less accumulated depreciation for:				
Buildings and Improvements	(\$10,043,304)	(\$255,101)	\$0	(\$10,298,405)
Machinery and Equipment	(183,108)	(30,684)	0	(213,792)
Vehicles	(824,527)	(89,769)	20,639	(893,657)
Total accumulated depreciation	(\$11,050,939)	(\$375,554) *	\$20,639	(\$11,405,854)
Total capital assets being depreciated, net	5,817,157	(278,114)	0	5,539,043
Governmental activities capital assets, net	\$6,578,672	\$1,884,160	\$0	\$8,462,832

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$157,801
Support Services:	
Pupils	11,330
Instructional Staff	16,244
Administration	19,364
Fiscal Services	881
Operations & Maintenance of Plant	22,544
Pupil Transportation	92,514
Central	11,791
Operation of Non-Instructional Services	23,657
Community Services	3,576
Extracurricular Activities	15,852
Total Depreciation Expense	<u>\$375,554</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems, which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2003, 8.17% was allocated to fund the pension benefit and 5.83% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2003, 2002, and 2001 were \$749,943, \$706,093, and \$683,448, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2003 employer contribution rate that was used to fund health care for the year 2003 was 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. The amount contributed to fund health care benefits, including the surcharge amounted to \$355,783.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 50,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. Net assets available for payment of benefits at June 30, 2003 was \$303.6 million.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9.3%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2002, (latest information available) 9.5% was allocated to fund the pension benefit and 4.5% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2003, 2002, and 2001 were \$2,526,615, \$2,425,900, and \$2,439,720, respectively, which were equal to the required contributions for each year.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2002, (latest information available) the board allocated employer contributions are equal to 4.5% of covered payroll to the Health Care Reserve Fund, which amounted to \$812,126 for the District. The balance of the Health Care Reserve Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

NOTE 11 - NOTES PAYABLE

Notes Payable activity of the District for the year ended June 30, 2003, was as follows:

		Balance			Balance
		June 30, 2002	Additions	Deletions	June 30, 2003
1.95%	School Improvement	\$15,000,000	\$0	(\$15,000,000)	\$0
2.03%	School Improvement	0	19,414,581	(19,414,581)	0
	Totals	<u>\$15,000,000</u>	<u>\$19,414,581</u>	<u>(\$34,414,581)</u>	<u>\$0</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the bonds, capital leases and compensated absences of the District for the year ended June 30, 2003 is as follows:

		Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003	Amount Due Within One Year	
Governmental Activities:							
General Obligation Bonds:							
1994	Energy Conservation	5.75%	\$279,000	\$0	(\$93,000)	\$186,000	\$93,000
2001	School Facilities Current Interest Term Bonds	4.75-5.38%	0	25,900,000	0	25,900,000	0
2001	School Facilities Current Interest Serial Bonds	2.25-5.38%	0	8,275,000	0	8,275,000	0
2001	School Facilities Capital Appreciation Bonds		0	239,581	0	239,581	0
2001	School Facilities Serial / Term Bond Discount		0	(41,540)	814	(40,726)	(1,539)
2001	School Facilities Capital Appreciation Bonds Premium		0	337,819	(16,239)	321,580	30,711
2001	School Facilities Capital Appreciation Bond Accumulated Accretion		0	11,804	0	11,804	0
	Total General Obligation Bonds		279,000	34,722,664	(108,425)	34,893,239	122,172
	Capital Leases		25,261	0	(11,693)	13,568	12,490
	Compensated Absences		4,166,981	5,880	(121,492)	4,051,369	107,224
	Total Long-Term Obligations		<u>\$4,471,242</u>	<u>\$34,728,544</u>	<u>(\$241,610)</u>	<u>\$38,958,176</u>	<u>\$241,886</u>

During December of 2002, the School District issued \$34,414,581 in voted general obligation bonds to repay outstanding bond anticipation notes disclosed in note 11. 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 bonds were issued for a twenty-six year period with a final maturity at December 1, 2029. The bonds will be retired from the debt service fund. As of June 30, 2003, the School District had \$32,576,000 in unspent bond proceeds in the Building Capital Projects Fund.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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

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

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

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

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

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

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

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

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

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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

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

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

The capital appreciation bonds mature on December 1, 2013. These bonds were purchased at a premium at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$945,000. For fiscal year 2003, \$11,804 was accreted for total bond liability of \$251,385.

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2003, follows:

<u>Years</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$93,000	\$1,599,979	\$1,692,979
2005	548,000	1,589,513	2,137,513
2006	495,000	1,575,223	2,070,223
2007	540,000	1,560,964	2,100,964
2008	590,000	1,543,614	2,133,614
2009-2013	3,770,000	7,357,426	11,127,426
2014-2018	4,714,581	7,226,844	11,941,425
2019-2023	7,915,000	4,887,519	12,802,519
2024-2028	11,095,000	2,641,984	13,736,984
2029-2030	4,840,000	231,038	5,071,038
Totals	<u>\$34,600,581</u>	<u>\$30,214,104</u>	<u>\$64,814,685</u>

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 13 - CAPITAL LEASE COMMITMENTS

The District leases routers under a capital lease. The cost of the improvements and equipment obtained under capital lease is included in the Governmental Activities Capital Assets and the related liability is included in the Governmental Activities Long-Term Obligations. The original cost of the assets acquired under capital lease was \$71,518.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2003:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>
2004	\$13,012
2005	<u>1,084</u>
Minimum Lease Payments	14,096
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>(528)</u>
Present value of minimum lease payments	<u><u>\$13,568</u></u>

NOTE 14 - STATUTORY RESERVES

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

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

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 14 - STATUTORY RESERVES (Continued)

	Textbook Reserve	Capital Acquisition Reserve	Budget Stabilization Reserve
Set-aside Cash Balance as of June 30, 2002	(\$309,658)	\$0	\$672,162
Current Year Set-Aside Requirement	580,562	580,562	0
Current Year Offset	0	(1,109,014)	0
Qualifying Disbursements	<u>(635,091)</u>	<u>(560,265)</u>	<u>0</u>
Total	<u>(\$364,187)</u>	<u>(\$1,088,717)</u>	<u>\$672,162</u>
Cash Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>	<u>\$672,162</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to or below zero. The extra amount in the textbook set-aside may be used to reduce the set-aside requirements of future years. The excess monies from transfers from the General Fund to the Permanent Improvement Capital Projects Fund and the tax levy receipts in the current and previous fiscal years may be used to reduce the capital set-aside in future fiscal years.

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2003.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 15 – CONTINGENCIES (Continued)

C. State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed, 'the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient.' The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 16 - RISK MANAGEMENT

The 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 2003 the District contracted with several different insurance providers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Ohio School Risk Sharing Authority	Bus Fleet	\$1000
Ohio School Risk Sharing Authority	Vehicles (non-bus)	\$1000
Ohio School Risk Sharing Authority	Inland Marine	\$1000
Utica Insurance Company	Commercial Property	\$1000
Utica Insurance Company	Modular Buildings	\$0
Ohio School Risk Sharing Authority	Blanket Bond	\$1000
Ohio School Risk Sharing Authority	Employee Theft	\$0
Ohio School Plan	General Liability	\$0
National Casualty	Volunteers	\$0

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

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

ZANESVILLE CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

NOTE 17 – DEMUTUALIZATION OF INSURANCE PROVIDER

During 2002, Anthem Blue Cross Blue Shield Insurance Company converted from a private mutual insurance company to a publicly traded insurance company. Policyholders in mutual insurance companies are considered “members” of the mutual insurance company and are entitled to vote on organizational matters. Due to the demutualization of Anthem Blue Cross Blue Shield Insurance Company, the District (a policyholder/member) received stock in the new publicly traded insurance company. Auditor of State Bulletin 2002-002 suggested that governmental entities receiving stock from a demutualization should convert it to cash, because to retain such stock would be considered a violation of the Ohio Constitution, Article VIII, Sections 4 and 6, which prohibit public bodies from becoming shareholders in any joint stock company, corporation, or association.

The Board of Education passed a resolution on July 25, 2002 authorizing the sale of 19,000 shares of the above mentioned stock. On September 19, 2002, these shares were sold for \$1,297,656. The Board of Education passed a resolution on October 24, 2002 authorizing the sale of the remaining 22,125 shares of stock. On October 30, 2002, these shares were sold for \$1,522,428. Monies received on these sales of stock were recorded as “Gain on Demutualization of Insurance Provider” on the District’s basic financial statements.

NOTE 18 – SUBSEQUENT EVENTS

On January 12, 2004, the District authorized the dissolution of the budget stabilization in accordance with S.B. 345 allowing the General Fund to expend \$672,162.

On May 24, 2004, the District awarded contracts in the total amount of approximately \$6.7 million for the construction of school facilities.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation Program	10.550	N/A		\$144,368		\$144,368
School Breakfast Program	10.553	48884-05PU-02	\$185,182		\$185,182	
National School Lunch Program	10.555	48884-LLP4-02	760,426		760,426	
Child and Adult Care Food Program	10.558	45179-CCMP-03	2,333		2,333	
Total U.S. Department of Agriculture - Nutrition Cluster			947,941	144,368	947,941	144,368
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	045179-C1S1-02	308,812		289,212	
	84.010	045179-C1S1-03	1,900,592		1,597,421	
	84.010	048884-C1SK-03	75,254		72,876	
Total Title I Grants to Local Educational Agencies			2,284,658		1,959,509	
Special Education Grants to States	84.027	045179-6BSF-02P	1,920		82,540	
	84.027	045179-6BSF-03P	646,266		617,564	
Total Special Education Grants to States			648,186		700,104	
Safe and Drug-Free Schools and Communities: State Grants	84.186	045179-DRS1-03	51,707		57,452	
Even Start: State Educational Agencies	84.213	045179-EVS7-02	71,118		65,018	
	84.213	045179-EVS8-03	182,165		124,362	
Total Even Start			253,283		189,380	
Goals 2000	84.276	051518C2SS02			9,546	
Eisenhower Professional Development State Grants	84.281	045179-C2S1-02			11,943	
Innovative Education Program Strategies	84.298	045179-C2S1-02	4,229		8,577	
	84.298	045179-C2S1-03	27,137		25,210	
Total Innovative Education Program Strategies			31,366		33,787	
Education Technology State Grants	84.318	045179-TJS1-03	56,147		55,680	
Advanced Placement Program	84.330	045179-AVAM-02	192			
Comprehensive School Reform Demonstration	84.332	045179-RFCC-03	41,700		37,605	
	84.332	045179-RFS2-01	3,950		20,027	
Total Comprehensive School Reform Demonstration			45,650		57,632	
Reading Excellence	84.338	045179-RNS2-00	113,342		115,351	
	84.338	045179-RNS1-00			118,856	
Total Reading Excellence			113,342		234,207	
Class Size Reduction	84.340	045179-CRS1-02	43,657		73,194	
Title I Accountability Grants	84.348	045179-AKS1-02	44,736		43,322	
School Renovation Grants	84.352A	045179-ATS2-02	14,792		12,861	
	84.352A	045179-ATS3-02	25,414		25,828	
	84.352A	045179-ATS4-02	1,681			
Total School Renovation Grants			41,887		38,690	
Improving Teacher Quality State Grants	84.367	045179-TRS1-03	510,387		386,129	
<i>Passed Through Ohio School Facilities Commission:</i>						
School Renovation Grants	84.352A	045179-826	135,360			
Total U.S. Department of Education			4,260,558		3,850,575	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of MRDD:</i>						
Medical Assistance Program - CAFS	93.778	N/A	125,175		125,175	
Total U.S. Department of Health and Human Services			125,175		125,175	
Total Federal Awards Receipts and Expenditures			\$5,333,674	\$144,368	\$4,923,691	\$144,368

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL 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 basic financial statements of the Zanesville City School District, Muskingum County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated August 26, 2004, wherein we noted the District implemented a new financial reporting model. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated August 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated August 26, 2004.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 26, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Zanesville City School District, Muskingum County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 26, 2004

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States - CFDA #84.027, Even Start: State Educational Agencies – CFDA #84.213, Improving Teacher Quality – CFDA #84.367, Medical Assistance Program – CAFS – CFDA #93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Finding Number 2003-001

Material Weakness

As more fully explained in Note 3 to the financial statements, the District was required to implement Governmental Accounting Standards Board Statement No. 34 for the fiscal year ended June 30, 2003. However, the District's capital asset policy had not been updated to address all of the requirements of Statement No. 34. The District's current policy omitted certain classifications of assets and depreciation policies such as estimated useful lives and the method of depreciation to be used. Although the District had adopted a new capitalization threshold of \$5,000 during fiscal year 2003, the previous capitalization threshold of \$500 was utilized in the preparation of the basic financial statements.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(Continued)**

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

Finding Number 2003-001 (Continued)

Material Weakness (Continued)

These weaknesses could allow for inconsistencies in reporting capital assets from year to year under generally accepted accounting principles. During the current year, these weaknesses did result in the District's failure to capitalize amounts expended on professional services for new construction projects as construction in progress. The failure to utilize the District's new capitalization threshold resulted in significant adjustments being required to the basic financial statements. In addition, the failure to reconcile capital outlay expenditures to additions to capital assets reported resulted in large discrepancies between the District's financial statements and the underlying supporting capital assets records. This required us to perform extensive substantive procedures in order to gain the necessary assurances over management's assertions related to capital assets reported on the District's financial statements. Our testing also indicated that certain capital assets were included in the financial statements which were no longer held by the District while other capital assets were omitted from the financial statements which were still held by the District. These factors resulted in significant adjustments being required to the District's basic financial statements.

We recommend the following:

1. The Board of Education should formally adopt a capital asset policy that addresses the requirements of the new reporting model outlined under Governmental Accounting Standards Board Statement No. 34. This would provide a more detailed basis for the District to follow when classifying and depreciating capital assets. In addition to the items already contained within the District's policies, the policy should address classifications of capital assets (i.e. buildings and improvements, equipment, vehicles, construction in progress, etc.); and depreciation methods and useful lives of assets, the function to which each asset's depreciation will be charged; etc. Once adopted, a copy of this policy should be provided both to the District personnel involved in the capital asset accounting process and to the consultant performing the District's financial statement compilation.
2. A periodic reconciliation should be performed between capital outlay expenditures and capital asset acquisitions reported to the Assistant Superintendent's Office prior to the permanent capital asset report being updated. This would significantly help the District assure all capitalizable costs are recorded in the capital asset system.
3. A process of confirming all capital assets on record at the District's administrative office with those held at each building should be implemented in order to identify any unrecorded capital asset retirements for each fiscal year.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
SEPTEMBER 9, 2004**