



Mary Taylor, CPA
Auditor of State

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

May 20, 2008

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

As management of the Zanesville City School District (the School District), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the notes to the basic financial statements.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$61,641,527.
- General revenues accounted for \$95,135,883 in revenue or 90 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$11,041,887 or 10 percent of total revenues of \$106,177,770.
- Total assets of governmental activities increased \$59,977,039 or 107 percent. The increase is primarily due to the School District beginning Phase II of the Ohio School Facilities Expedited Local Partnership Program.
- The School District had \$44,536,243 in expenses relating to governmental activities; only \$11,041,887 of these expenses was offset by program specific charges for services, grants, contributions, and interest.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

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

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1 - Net Assets

	Governmental Activities		
	2007	2006	Change
Assets			
Current and Other Assets	\$81,036,829	\$21,079,822	\$59,957,007
Capital Assets	34,568,878	34,548,846	20,032
Total Assets	115,605,707	55,628,668	59,977,039
Liabilities			
Long-Term Liabilities	37,173,068	36,358,716	814,352
Other Liabilities	13,822,626	16,301,466	(2,478,840)
Total Liabilities	50,995,694	52,660,182	(1,664,488)
Net Assets			
Invested in Capital Assets, Net of Debt	3,923,367	5,274,841	(1,351,474)
Restricted	65,918,417	3,029,960	62,888,457
Unrestricted (Deficit)	(5,231,771)	(5,336,315)	104,544
Total Net Assets	\$64,610,013	\$2,968,486	\$61,641,527

Total assets increased \$59,977,039. The majority of the increase in current and other assets was due mainly to an increase of \$62,167,328 in intergovernmental receivables and an increase of \$141,031 in property taxes receivables. These increases were offset by decrease of \$2,223,181 in cash and cash equivalents and a decrease in revenue in lieu of taxes receivable of \$139,498. The increase in intergovernmental receivables was due mainly to the recording of a \$61,677,495 receivable that is associated with Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program. As of June 30, 2007, the School District has not drawn any money for construction, but the monies were available to be withdrawn. The increase in property taxes receivable (from increased property tax valuations) and the decrease in revenue in lieu of taxes receivable were due to the amounts that were certified by the County Auditor. The decrease in cash and cash equivalents was primarily due to the School District's cash flow situation where the expenses exceeded the revenues during fiscal year 2007.

Total liabilities decreased by \$1,664,488. The majority of the decrease is in other liabilities due to a decrease of \$1,904,893 in deferred revenue, a decrease of \$1,292,439 in accrued wages and benefits payable, and a decrease of \$81,531 in matured compensated absences payable. The decrease in accrued wages and benefits payable was due to the School District accruing one pay for fiscal year 2007 compared to accruing two pays during fiscal year 2006. The decrease in matured compensated absences payable was mainly due to a retirement incentive/ termination agreement that was offered at the end of fiscal year to teachers at the high end of the pay scale or who were currently eligible to retire. A total of 32 teachers participated in the offer and the School District is paying the liability to a third party administrator over a three year period and as a result are reflected as long-term liabilities. The decrease in deferred revenue was due to the amounts that were certified by the County Auditor for delinquent property taxes. These decreases were offset by an increase of \$321,230 in accounts payable and an increase of \$551,349 in claims payable. Accounts payable increased \$321,230 from the prior year resulting from the timing of payments for professional services. During fiscal year 2007, the School District established a self-insurance fund for medical and dental claims

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
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and at June 30, 2007, the claims to be paid totaled \$551,349. The long-term liabilities increased by \$814,352. This increase was primarily due to the retirement incentive/ termination agreement that was offered to teachers at the end of fiscal year 2007.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, and comparisons to fiscal year 2006.

	Governmental Activities		
	2007	2006	Change
Revenues			
Program Revenues			
Charges for Services	\$1,818,955	\$1,875,413	(\$56,458)
Operating Grants, Contributions, and Interest	9,148,980	8,929,731	219,249
Capital Grants and Contributions	73,952	109,872	(35,920)
Total Program Revenues	<u>11,041,887</u>	<u>10,915,016</u>	<u>126,871</u>
General Revenue			
Property Taxes	12,348,440	12,350,211	(1,771)
Grants and Entitlements	82,347,123	20,020,748	62,326,375
Payment in Lieu of Taxes	52,364	342,378	(290,014)
Investment Earnings	328,263	232,993	95,270
Miscellaneous	59,693	57,790	1,903
Total General Revenues	<u>95,135,883</u>	<u>33,004,120</u>	<u>62,131,763</u>
Total Revenues	<u>106,177,770</u>	<u>43,919,136</u>	<u>62,258,634</u>
Program Expenses			
Instruction			
Regular	17,548,309	16,889,469	658,840
Special	6,623,957	7,661,942	(1,037,985)
Vocational	244,705	265,896	(21,191)
Intervention	601,962	57,318	544,644
Support Services			
Pupils	2,023,943	2,009,692	14,251
Instructional Staff	4,475,524	3,195,167	1,280,357
Board of Education	267,259	288,736	(21,477)
Administration	2,513,680	2,984,810	(471,130)
Fiscal	698,140	669,030	29,110
Operation and Maintenance of Plant	3,406,937	3,230,639	176,298
Pupil Transportation	1,068,265	1,222,990	(154,725)
Central	556,466	486,993	69,473
Operation of Non-Instructional Services:			
Food Service Operations	1,965,959	2,276,595	(310,636)
Other	485,060	398,905	86,155
Extracurricular Activities	483,500	495,189	(11,689)
Interest	1,572,577	1,579,341	(6,764)
Total Program Expenses	<u>44,536,243</u>	<u>43,712,712</u>	<u>823,531</u>
<i>Change in Net Assets</i>	61,641,527	206,424	61,435,103
Net Assets Beginning of Year	<u>2,968,486</u>	<u>2,762,062</u>	<u>206,424</u>
Net Assets End of Year	<u>\$64,610,013</u>	<u>\$2,968,486</u>	<u>\$61,641,527</u>

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The School District's net assets increased \$61,641,527. The majority of this increase was due to an increase in grants and entitlements during fiscal year 2007. During fiscal year 2007, the School District entered into Phase II of the School District's Ohio School Facilities Expedited Local Partnership Program with the total accrued revenue being \$61,677,495. The remaining \$648,880 difference in grants and entitlements is a direct result of a \$523,986 increase in the School District's tangible personal property tax reimbursement, a \$149,367 increase in the amount of poverty based aid, and a decrease of \$20,494 in the amount of parity aid received by the School District from State Foundation.

Total instruction expense increased \$144,308. Regular instruction increased \$658,840 due to an increase in costs associated with students leaving the School District through open enrollment. Special instruction decreased \$1,037,985 due to the School District eliminating 14 certified positions during fiscal year 2007 in order to reduce expenses. Intervention instruction increased \$544,644 as a result of the School District increasing wages and benefits in connection with the number of students receiving intervention aid. During fiscal year 2007, the School District began providing intervention aid to juveniles who had committed crimes that were located in a rehabilitation center in Zanesville.

Instructional staff increased \$1,280,357 mainly due to the recording of the \$1,909,661 retirement incentive agreement that occurred at the end of fiscal year 2007. In addition to this agreement, the School District eliminated an additional 8 positions during fiscal year 2007.

The decrease of \$471,130 in administration expenses and \$310,636 in food service operation expenses is due to the School District eliminating a total of 16 positions during fiscal year 2007 in order to reduce expenses.

Instruction comprises approximately 56 percent of governmental program expenses, support services make up approximately 34 percent of the program expenses, operation of non-instructional services make up approximately 6 percent of program expenses, and the remaining 4 percent of program expenses is related to extracurricular activities and interest expenses of the School District.

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

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 3 - Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007	2007	2006	2006
Program Expenses				
Instruction				
Regular	\$17,548,309	\$15,787,920	\$16,889,469	\$15,584,945
Special	6,623,957	2,758,134	7,661,942	3,412,070
Vocational	244,705	196,474	265,896	205,049
Intervention	601,962	601,962	57,318	57,318
Support Services:				
Pupils	2,023,943	1,390,074	2,009,692	1,584,008
Instructional Staff	4,475,524	2,959,263	3,195,167	1,316,490
Board of Education	267,259	267,259	288,736	288,736
Administration	2,513,680	2,188,306	2,984,810	2,765,134
Fiscal	698,140	683,908	669,030	653,921
Operation and Maintenance				
of Plant	3,406,937	3,351,721	3,230,639	3,159,872
Pupil Transportation	1,068,265	843,337	1,222,990	1,062,571
Central	556,466	514,254	486,993	424,994
Operation of				
Non-Instructional Services:				
Food Service Operations	1,965,959	119,158	2,276,595	450,828
Other	485,060	(16,804)	398,905	(123,078)
Extracurricular Activities	483,500	276,813	495,189	375,497
Interest	1,572,577	1,572,577	1,579,341	1,579,341
Totals	\$44,536,243	\$33,494,356	\$43,712,712	\$32,797,696

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. For 2007, only 10 percent of the governmental activities performed by the School District are supported through program revenues such as charges for services, grants, contributions, and interest. The remaining 90 percent is provided through taxes and entitlements.

The School District's Major Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$44,654,881 and expenditures of \$43,572,711.

General Fund

The deficit fund balance of the General Fund at June 30, 2007 is (\$1,866,247), an increase of \$1,819,382. The majority of this increase is due to the School District cutting unnecessary expenditures and reducing both certified and classified positions. During fiscal year 2007, the School District reduced 23 certified personnel and 21 classified personnel.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Ohio School Facilities Commission Capital Projects Fund

During fiscal year 2007, the School District began Phase II of the Ohio School Facilities Expedited Local Partnership Program. The estimated cost of this project totals \$61,677,495 and a receivable was recorded for this amount. As of June 30, 2007, the School District has not drawn any money for construction, but the monies were available to be withdrawn. The fund balance of the Ohio School Facilities Commission Capital Projects Fund at June 30, 2007 is \$338,052. The School District transferred \$520,873 from the Building Capital Projects Fund to the Ohio School Facilities Commission Capital Projects Fund per the Ohio School Facilities Project Agreement to cover the cost of project over-runs associated with the Phase II construction. As of June 30, 2007, the School District had only incurred \$182,821 in expenditures associated with architectural and environmental services.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the School District amended its General Fund budget. The School District closely monitors its resources and uses and if necessary, modifies appropriations on a timely basis.

The General Fund had original revenue budget estimates of \$29,050,262. The original budget estimates were decreased to a final budget amount of \$28,721,293 for the fiscal year. Actual revenues were \$60,544 below final budgeted estimates.

The General Fund had original expenditure budget estimates of \$28,901,700. The original budget estimates were increased to a final budget amount of \$30,271,499 for the fiscal year. This increase between the original and final budgets were due to conservative estimates made by the Treasurer for costs associated with students leaving the School District through open enrollment. Actual expenditures were \$394,963 below final budgeted estimates due to the actual costs for open enrollment were less than what the Treasurer had expected.

The School District's ending unobligated General Fund budgetary balance was \$334,419 above their final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$34,568,878 invested in land, construction in progress, buildings, building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to 2006.

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Table 4 - Capital Assets at June 30, 2007
(Net of Depreciation)

	<u>Government Activities</u>	
	<u>2007</u>	<u>Restated Balance 2006</u>
Land	\$2,205,942	\$1,004,172
Construction in Progress	215,522	0
Buildings and Building Improvements	31,157,683	32,541,820
Improvements Other Than Buildings	326,623	272,776
Furniture, Fixtures, Equipment and Vehicles	663,108	730,078
Totals	\$34,568,878	\$34,548,846

During fiscal year 2007, the School District began Phase II of the Ohio School Facilities Expedited Local Partnership Program. See Note 11 for more detailed information of the School District's capital assets.

Debt

At June 30, 2007, the School District had \$33,216,716 in bonds, accretion, and an unamortized premium and discount outstanding.

Table 5
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
2001 School Facilities		
Serial Bonds - 2.25-5.38%	\$6,785,000	\$7,325,000
Term Bonds - 4.75-5.38%	25,900,000	25,900,000
2001 School Facilities Capital Appreciation Bonds		
Original Issue	239,576	239,576
Accretion	127,976	96,945
2001 School Facilities Serial/ Term Bonds Discount	(34,572)	(36,110)
2001 School Facilities Serial/ Term Bonds Premium	198,736	229,447
Totals	\$33,216,716	\$33,754,858

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

Economic Factors

The Zanesville City School District relies upon local property taxes and state foundation/grant monies to fund its operations. In fiscal year 2007, the School District received approximately 78 percent of its revenues from the state foundation program/grants and 12 percent from local property taxes.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

During fiscal year 2007, the School District passed the ½ mill maintenance levy and has begun Phase II of the Ohio School Facilities Commission project that consists of the construction of one senior high school and two elementary schools at a cost of \$61,677,495.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information you may contact Cindy Nye, Treasurer, Zanesville City School District, 160 N Fourth Street, Zanesville, Ohio 43701. Or E-Mail at nye@zanesville.k12.oh.us.

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Zanesville City School District, Ohio

Statement of Net Assets

June 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,661,611
Cash and Cash Equivalents in Segregated Accounts	273,098
Accounts Receivable	21,129
Inventory Held for Resale	7,515
Materials and Supplies Inventory	3,922
Prepaid Items	53,626
Revenue in Lieu of Taxes Receivable	57,206
Property Taxes Receivable	13,045,934
Intergovernmental Receivable	63,666,204
Deferred Charges	246,584
Nondepreciable Capital Assets	2,421,464
Depreciable Capital Assets, Net	32,147,414
<i>Total Assets</i>	<u>115,605,707</u>
Liabilities	
Matured Compensated Absences Payable	14,389
Accounts Payable	578,635
Accrued Wages and Benefits Payable	3,814,986
Vacation Benefits Payable	137,433
Accrued Interest Payable	123,076
Intergovernmental Payable	1,476,676
Claims Payable	551,349
Deferred Revenue	7,126,082
Long-Term Liabilities:	
Due Within One Year	1,271,525
Due In More Than One Year	35,901,543
<i>Total Liabilities</i>	<u>50,995,694</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,923,367
Restricted for:	
Federal Grants	930,360
Unclaimed Monies	6,422
Bus Purchase	8,557
Capital Projects	62,278,794
Debt Service	2,227,764
Other Purposes	466,520
Unrestricted (Deficit)	(5,231,771)
<i>Total Net Assets</i>	<u><u>\$64,610,013</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Revenue and Change in Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$17,548,309	\$688,741	\$1,064,341	\$7,307	(\$15,787,920)
Special	6,623,957	334,756	3,531,067	0	(2,758,134)
Vocational	244,705	0	48,231	0	(196,474)
Intervention	601,962	0	0	0	(601,962)
Support Services:					
Pupils	2,023,943	4,236	629,633	0	(1,390,074)
Instructional Staff	4,475,524	12,114	1,504,147	0	(2,959,263)
Board of Education	267,259	0	0	0	(267,259)
Administration	2,513,680	862	322,831	1,681	(2,188,306)
Fiscal	698,140	13,698	0	534	(683,908)
Operation and Maintenance of Plant	3,406,937	8,419	9,523	37,274	(3,351,721)
Pupil Transportation	1,068,265	79,308	119,644	25,976	(843,337)
Central	556,466	0	42,212	0	(514,254)
Operation of Non-Instructional Services:					
Food Service Operations	1,965,959	482,801	1,364,000	0	(119,158)
Other	485,060	2,907	497,777	1,180	16,804
Extracurricular Activities	483,500	191,113	15,574	0	(276,813)
Interest	1,572,577	0	0	0	(1,572,577)
Totals	\$44,536,243	\$1,818,955	\$9,148,980	\$73,952	(33,494,356)

General Revenues

Property Taxes Levied for:

General Purposes	10,218,225
Debt Service	2,130,215
Payment in Lieu of Taxes for General Purposes	52,364
Grants and Entitlements not Restricted to Specific Programs	82,347,123
Investment Earnings	328,263
Miscellaneous	59,693

Total General Revenues 95,135,883

Change in Net Assets 61,641,527

Net Assets Beginning of Year - Restated (See Note 3) 2,968,486

Net Assets End of Year \$64,610,013

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Balance Sheet
Governmental Funds
June 30, 2007

	General	Ohio School Facilities Commission	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$367,977	\$3,293,634	\$3,661,611
Accounts Receivable	17,334	0	3,795	21,129
Intergovernmental Receivable	268,413	61,677,495	1,720,296	63,666,204
Inventory Held for Resale	0	0	7,515	7,515
Materials and Supplies Inventory	0	0	3,922	3,922
Interfund Receivable	0	0	1,825,701	1,825,701
Prepaid Items	47,447	0	6,179	53,626
Revenue in Lieu of Taxes Receivable	48,814	0	8,392	57,206
Property Taxes Receivable	10,628,593	0	2,417,341	13,045,934
<i>Total Assets</i>	<u>\$11,010,601</u>	<u>\$62,045,472</u>	<u>\$9,286,775</u>	<u>\$82,342,848</u>
Liabilities				
Matured Compensated Absences Payable	\$8,772	\$0	\$5,617	\$14,389
Accounts Payable	126,089	29,925	422,621	578,635
Accrued Wages and Benefits Payable	2,713,135	0	1,101,851	3,814,986
Interfund Payable	1,705,482	0	120,219	1,825,701
Intergovernmental Payable	1,112,738	0	363,938	1,476,676
Deferred Revenue	7,210,632	61,677,495	2,325,863	71,213,990
<i>Total Liabilities</i>	<u>12,876,848</u>	<u>61,707,420</u>	<u>4,340,109</u>	<u>78,924,377</u>
Fund Balances				
Reserved for Encumbrances	18,488	29,495	348,299	396,282
Reserved for Unclaimed Monies	6,422	0	0	6,422
Reserved for Bus Purchase	8,557	0	0	8,557
Reserved for Property Taxes	3,686,251	0	831,925	4,518,176
Unreserved:				
Undesignated, Reported in:				
General Fund (Deficit)	(5,585,965)	0	0	(5,585,965)
Special Revenue Funds	0	0	52,962	52,962
Debt Service Fund	0	0	1,475,013	1,475,013
Capital Projects Funds	0	308,557	2,238,467	2,547,024
<i>Total Fund Balances (Deficit)</i>	<u>(1,866,247)</u>	<u>338,052</u>	<u>4,946,666</u>	<u>3,418,471</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,010,601</u>	<u>\$62,045,472</u>	<u>\$9,286,775</u>	<u>\$82,342,848</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 June 30, 2007

Total Governmental Fund Balances \$3,418,471

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 34,568,878

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. (278,251)

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

Property Taxes Receivable	1,401,676	
Intergovernmental Receivable	62,579,020	
Tuition and Fees	<u>107,212</u>	64,087,908

Vacation Benefits Payable is recognized for earned vacation benefits that are not due and payable and therefore are not reported in the funds. (137,433)

Unamortized issuance costs are reported as deferred charges on the Statement of Net Assets but as an expenditure on the fund financial statements. 246,584

Accrued Interest Payable is recognized for outstanding long-term liabilities reported in the funds when due. (123,076)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds Payable	(32,924,576)	
Bond Premium	(198,736)	
Bond Discount	34,572	
Accretion	(127,976)	
Termination/Retirement Incentive Payable	(1,909,661)	
Compensated Absences	<u>(2,046,691)</u>	<u>(37,173,068)</u>

Net Assets of Governmental Activities \$64,610,013

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, 2007

	Ohio		Other	Total
	General	School Facilities Commission	Governmental Funds	Governmental Funds
Revenues				
Property Taxes	\$10,143,468	\$0	\$2,107,299	\$12,250,767
Payment in Lieu of Taxes	46,590	0	5,774	52,364
Intergovernmental	18,904,672	0	11,058,713	29,963,385
Interest	317,077	0	6,327	323,404
Tuition and Fees	908,260	0	178,989	1,087,249
Rentals	0	0	2,000	2,000
Extracurricular Activities	0	0	270,310	270,310
Charges for Services	0	0	486,890	486,890
Contributions and Donations	380	0	150,242	150,622
Miscellaneous	50,034	0	17,856	67,890
<i>Total Revenues</i>	<u>30,370,481</u>	<u>0</u>	<u>14,284,400</u>	<u>44,654,881</u>
Expenditures				
Current:				
Instruction:				
Regular	13,628,261	0	2,806,924	16,435,185
Special	4,622,271	0	2,039,196	6,661,467
Vocational	224,073	0	0	224,073
Intervention	0	0	601,962	601,962
Support Services:				
Pupils	1,426,976	0	592,668	2,019,644
Instructional Staff	626,067	0	1,959,692	2,585,759
Board of Education	247,238	0	0	247,238
Administration	2,300,898	0	306,635	2,607,533
Fiscal	644,749	0	47,305	692,054
Operation and Maintenance of Plant	3,200,383	4,260	187,539	3,392,182
Pupil Transportation	836,130	0	200,367	1,036,497
Central	508,141	0	39,993	548,134
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,939,973	1,939,973
Other Non-Instructional Services	8,951	0	476,898	485,849
Extracurricular Activities	274,983	0	204,701	479,684
Capital Outlay	0	178,561	1,335,952	1,514,513
Debt Service:				
Principal Retirement	0	0	540,000	540,000
Interest and Fiscal Charges	0	0	1,560,964	1,560,964
<i>Total Expenditures</i>	<u>28,549,121</u>	<u>182,821</u>	<u>14,840,769</u>	<u>43,572,711</u>
<i>Excess of Revenues Over (Under) Expenditures:</i>	<u>1,821,360</u>	<u>(182,821)</u>	<u>(556,369)</u>	<u>1,082,170</u>
Other Financing Sources (Use)				
Proceeds from Sale of Capital Assets	0	0	87,132	87,132
Transfers In	0	520,873	1,978	522,851
Transfers Out	(1,978)	0	(520,873)	(522,851)
<i>Total Other Financing Sources (Use)</i>	<u>(1,978)</u>	<u>520,873</u>	<u>(431,763)</u>	<u>87,132</u>
<i>Net Change in Fund Balances</i>	1,819,382	338,052	(988,132)	1,169,302
Fund Balances (Deficit) Beginning of Year	(3,685,629)	0	5,934,798	2,249,169
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,866,247)</u>	<u>\$338,052</u>	<u>\$4,946,666</u>	<u>\$3,418,471</u>

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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$1,169,302
<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:	
Capital Asset Additions	1,585,569
Depreciation Expense	(1,120,483)
	465,086
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the proceeds from the sale of capital assets and the loss on disposal of capital assets.	
Proceeds from the Sale of Capital Assets	(87,132)
Loss on Disposal of Capital Assets	(357,922)
	(445,054)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change of the internal service fund is reported with governmental activities.	
	(278,251)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Accounts Receivable	(5,219)
Due from Other Funds	(4,089)
Intergovernmental	61,423,338
Delinquent Taxes	97,673
	61,511,703
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	540,000
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.	
	1,218
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Vacation Benefits Payable	30,848
Retirement Incentive Payable	12,000
Termination/Retirement Incentive Payable	(1,909,661)
Compensated Absences Payable	557,167
	(1,309,646)
The amortization of premiums, discounts, and issuance costs are reported on the statement of activities:	
Premium Amortization	30,711
Discount Amortization	(1,538)
Issuance Costs Amortization	(10,973)
	18,200
Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds.	
	(31,031)
Change in Net Assets of Governmental Activities	\$61,641,527

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 (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$7,980,060	\$8,343,054	\$8,295,503	(\$47,551)
Payment in Lieu of Taxes	103,113	65,085	180,673	115,588
Intergovernmental	19,957,665	18,962,675	18,920,591	(42,084)
Interest	146,933	298,820	317,000	18,180
Tuition and Fees	794,491	969,221	908,011	(61,210)
Contributions and Donations	0	0	337	337
Miscellaneous	68,000	82,438	38,634	(43,804)
<i>Total Revenues</i>	<u>29,050,262</u>	<u>28,721,293</u>	<u>28,660,749</u>	<u>(60,544)</u>
Expenditures				
Current:				
Instruction:				
Regular	14,043,326	14,541,663	14,138,849	402,814
Special	4,364,656	4,828,379	4,954,504	(126,125)
Vocational	186,389	250,187	253,341	(3,154)
Support Services:				
Pupils	1,393,826	1,429,468	1,469,746	(40,278)
Instructional Staff	792,575	740,955	752,233	(11,278)
Board of Education	235,054	285,861	265,608	20,253
Administration	2,368,127	2,418,968	2,417,442	1,526
Fiscal	628,369	657,815	673,320	(15,505)
Operation and Maintenance of Plant	3,258,588	3,224,332	3,213,199	11,133
Pupil Transportation	713,443	939,475	883,652	55,823
Central	614,202	634,874	552,808	82,066
Other Non-Instructional Services	10,684	13,084	11,453	1,631
Extracurricular Activities	292,461	306,438	290,381	16,057
<i>Total Expenditures</i>	<u>28,901,700</u>	<u>30,271,499</u>	<u>29,876,536</u>	<u>394,963</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	148,562	(1,550,206)	(1,215,787)	334,419
Other Financing Use				
Transfers Out	(3,000)	(1,978)	(1,978)	0
<i>Net Change in Fund Balance</i>	145,562	(1,552,184)	(1,217,765)	334,419
Fund Balance (Deficit) Beginning of Year	(592,771)	(592,771)	(592,771)	0
Prior Year Encumbrances Appropriated	78,198	78,198	78,198	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$369,011)</u>	<u>(\$2,066,757)</u>	<u>(\$1,732,338)</u>	<u>\$334,419</u>

See accompanying notes to the basic financial statement:

Zanesville City School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2007

	Self- Insurance
Current Assets	
Cash and Cash Equivalents in Segregated Accounts	\$273,098
Current Liabilities	
Claims Payable	551,349
Net Assets	
Unrestricted	(\$278,251)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Self- Insurance
Operating Revenues	
Charges for Services	\$4,402,273
Operating Expenses	
Purchased Services	501,512
Claims	4,190,198
<i>Total Operating Expenses</i>	4,691,710
<i>Operating Loss</i>	(289,437)
Non-Operating Revenue	
Interest Income	11,186
<i>Change in Net Assets</i>	(278,251)
<i>Net Assets at Beginning of Year</i>	0
<i>Net Assets at End of Year</i>	(\$278,251)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2007

	<u>Self- Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$4,402,273
Cash Payments for Services	(501,512)
Cash Payments for Claims	<u>(3,638,849)</u>
<i>Net Cash Provided by Operating Activities</i>	261,912
Cash Flows from Investing Activities	
Interest on Investments	11,186
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$273,098</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	(\$289,437)
Changes in Assets and Liabilities	
Increase in Claims Payable	<u>551,349</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$261,912</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

Assets	
Equity in Pooled Cash and Cash Equivalents	\$32,591
Cash and Cash Equivalents in Segregated Accounts	<u>1,064</u>
<i>Total Assets</i>	<u><u>\$33,655</u></u>
Liabilities	
Due to Students	\$31,960
Due to Others	<u>1,695</u>
<i>Total Liabilities</i>	<u><u>\$33,655</u></u>

See accompanying notes to the basic financial statements

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Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1849 when the first Zanesville High School was built with an enrollment of 50 students. The School District serves the City of Zanesville and is located in Muskingum County. The School District is staffed by 198 classified employees and 317 certificated full-time teaching personnel and administrative employees providing education to 4,119 students. The School District currently operates eight instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

The School District participates in five jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association, Mid-East Career and Technology Centers, Metropolitan Educational Council, East Central Ohio Special Education Regional Resource Center, Coalition of Rural and Appalachian Schools, Ohio School Boards Association Workers' Compensation Group Rating Plan, and Ohio School Benefits Cooperative. These organizations are presented in Notes 19 and 20 to the basic financial statements.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

Ohio School Facilities Commission Capital Projects Fund The Ohio School Facilities Commission Capital Projects Fund is used to account for the receipts and expenditures related to acquiring, constructing, and improving school facilities.

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for staff and student managed activities.

C. Measurement Focus

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

D. Basis of Accounting

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

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

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

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District, except for cash held in segregated accounts, is pooled. Monies for all funds, except the District's Self Insurance Internal Service Fund and certain Agency Fund accounts, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

The School District has segregated bank accounts for monies related to the District's Self Insurance Internal Service Fund and other monies held outside the School District's treasury. These depository accounts are presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts."

During fiscal year 2007, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The School District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund is entirely assigned from other School District funds.

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for classified employees with six months of service. Vacation leave may not be carried forward by classified employees from one year to the next unless special approval is given by the Superintendent.

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

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

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

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Activity

Transfers within governmental activities on the government-wide statements are reported in the same manner as general revenues. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. The School District did not have sufficient unrestricted cash in the General Fund to restrict for unclaimed monies and unspent revenues restricted for the purchase of buses.

N. Fund Balance Reserves

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

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources to be used for instructional and support services activities and state and federal grants restricted for specified purposes. The government-wide statement of net assets reports \$65,918,417 of restricted net assets. Of the restricted net assets none is restricted by enabling legislation.

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

P. Extraordinary and Special Items

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

Q. Estimates

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

R. Budgetary Process

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

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

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

S. Unamortized Issuance Costs/ Bond Premium and Discount

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

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

T. Operating Revenues and Expenses

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 3 - Prior Period Restatement

During fiscal year 2007, the School District underwent a reappraisal of capital assets; therefore, the governmental activities net assets were restated at June 30, 2006 as follows:

	<u>Governmental Activities</u>
Governmental Activities Net Assets, June 30, 2006	\$1,930,704
Capital Assets, Net	1,037,782
Adjusted Governmental Activities Net Assets, June 30, 2006	\$2,968,486

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2007, the following funds had fund deficits:

	<u>Deficit Fund Balances</u>
General Fund	(\$1,866,247)
<u>Special Revenue Funds:</u>	
Lunchroom	(156,861)
Miscellaneous Local Funds	(45,888)
Poverty Based Assistance	(221,940)

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

The deficit in the Food Service Special Revenue Fund is due to adjustments for accrued liabilities and a failure to adequately fund this program. The deficit in the Miscellaneous Local Funds Special Revenue Fund is due in part to deficit cash balance as well as adjustments for accrued liabilities. The deficit in the Poverty Based Assistance Special Revenue Fund is due to adjustments for accrued liabilities.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

B. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations at year end, contrary to section 5705.41(B), Revised Code.

	<u>Excess</u>
Ohio School Facilities Commission Capital Projects Fund	(\$142,316)
<u>Nonmajor Special Revenue Fund:</u>	
Poverty Based Assistance	(32,280)
Self Insurance Internal Service Fund	(440,050)

In addition to the above items, the Self Insurance Internal Service Fund had significant amounts of expenditures plus encumbrances in excess of appropriations during the fiscal year.

For GAAP reporting purposes, the School District combines the Latchkey Fund and the Rotary Fund into one Miscellaneous Local Special Revenue Fund. The School District's Latchkey Fund had expenditures plus encumbrances in excess of appropriations of \$10,289, contrary to Section 5705.41(B), Revised Code.

The General Fund had original appropriations in excess of estimated resources plus available balances for the year ended June 30, 2007 as follows:

	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$28,535,689	(\$28,904,700)	(\$369,011)

The following funds had final appropriations in excess of estimated resources plus available balances for the year ended June 30, 2007:

	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$28,206,720	(\$30,273,477)	(\$2,066,757)
<u>Nonmajor Special Revenue Funds:</u>			
Lunchroom	1,714,042	(1,924,304)	(210,262)
Miscellaneous Local	280,198	(306,112)	(25,914)

The School District's Rotary Fund, which is included as part of the Miscellaneous Local Special Revenue Fund for GAAP reporting, had final appropriations in excess of estimated resources plus available balances by \$35,856, for the year ended June 30, 2007.

In addition, certain School District funds, including the School District's General Fund and Miscellaneous Federal Grants Fund, had significant appropriations in excess of estimated resources plus available balances at various times during fiscal year 2007.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Ohio Rev. Code Section 5705.41(D) requires the fiscal officer to certify the availability of appropriations prior to the School District entering into a commitment. The School District did not certify all expenditures prior to a commitment being made.

The School District should have Restricted Cash and Cash Equivalents on the balance sheet in the amount of \$8,557 relating to unspent revenues for the purchase of buses and \$6,422 for unclaimed monies; however the School District does not have available unrestricted cash resources to cover these restrictions.

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

The following funds had deficit cash balances contrary to Ohio Revised Code section 5705.10:

	<u>Negative Cash Balances</u>
<u>General Fund</u>	(\$1,705,618)
<u>Nonmajor Special Revenue Funds:</u>	
Lunchroom	(77,855)
Miscellaneous Local	(23,394)
Ohio Reads	(18,970)

For GAAP reporting purposes, the School District combines its General Fund, Uniform School Supplies Fund, and the Unclaimed Monies Fund into one General Fund. As of June 30, 2007, the School District's General Fund had a deficit cash balance of \$1,711,461 and the Uniform School Supplies Fund had a deficit cash balance of \$575. The School District's Unclaimed Monies Fund had a positive cash balance of \$6,418. This resulted in the Major General Fund having the deficit cash balance noted above.

The School District's Latchkey Fund and Rotary Fund had deficit cash balances of \$2,474 and \$20,921, respectively, as of June 30, 2007 resulting in the Miscellaneous Local Special Revenue Fund having a deficit cash balance of \$23,394 for GAAP reporting purposes.

In addition, the School District had various funds, including the General Fund, which had significant deficit cash balances at times during the fiscal year contrary to Ohio Revised Code section 5705.10.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$1,819,382
Net Adjustment for Revenue Accruals	(1,709,655)
Net Adjustment for Expenditure Accruals	(1,264,070)
Beginning:	
Prepaid Items	10,822
Unrecorded Cash	59
Ending:	
Prepaid Items	(47,447)
Unrecorded Cash	(136)
Adjustment for Encumbrances	<u>(26,720)</u>
Budget Basis	<u><u>(\$1,217,765)</u></u>

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 6 - Deposits and Investments

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

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

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

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

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

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

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,007,368 of the School District's bank balance of \$4,307,368 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments: As of June 30, 2007, the School District had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity
Repurchase Agreements	\$403,681	1 Day
STAROhio	48,526	Average 38.56 Days
Total	\$452,207	

Interest Rate Risk

The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

The underlying securities for the repurchase agreements carry a rating of AAA by Standard and Poor's and STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The underlying securities for the repurchase agreement are exposed to custodial credit risk in that the security is held by the counterparty's trust department or agent, but not in the School District's name. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 89 percent is invested in repurchase agreements.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property tax) represents the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory.

The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Muskingum County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The amount available as an advance at June 30, 2007, was \$4,518,176. \$3,686,251 was available to the General Fund and \$831,925 was available to the Bond Retirement Debt Service fund. The amount available as an advance at June 30, 2006, was \$2,569,925. \$1,838,286 was available to the General Fund and \$731,639 was available to the Bond Retirement Debt Service Fund.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>2006 Second- Half Collections</u>		<u>2007 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Estate	\$330,122,250	84.57%	\$371,370,900	88.94%
Public Utility Personal	17,087,800	4.38%	16,627,890	3.98%
General Business Personal	<u>43,128,967</u>	<u>11.05%</u>	<u>29,542,258</u>	<u>7.08%</u>
Total Assessed Value	<u><u>\$390,339,017</u></u>	<u><u>100.00%</u></u>	<u><u>\$417,541,048</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$49.33		\$49.33	

Note 8 - Receivables

Receivables at June 30, 2007, consisted of property taxes, accounts (rent, student fees and tuition), intergovernmental grants, revenue in lieu of taxes, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Delinquent property taxes in the amount of \$1,401,676 and the portion of Phase II Construction Project totaling \$61,677,495 that will be paid to the School District through the Ohio School Facilities Commission for future construction will not be collected within one year.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
School Foundation Adjustments	\$161,078
Excess Costs	107,212
Perry Hocking Educational Service Center	123
Food Service	158,066
Title VI-B Grant	453,056
Title I Grant	464,811
Title II-D Grant	6,633
Title II-A Grant	235,846
21st Century Grant	235,690
Ohio Reads Grant	27,341
Early Learning Grant	76,020
Reading Recovery Grant	15,106
CORE Implementation Grant	46,726
Title V	1,001
Ohio School Facilities - Phase II Construction	61,677,495
Total	\$63,666,204

Note 9 - Transfers

Following is a summary of transfers in and out for all funds at June 30, 2007:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$1,978
Ohio School Facilities Commission Capital Projects Fund	520,873	0
<u>Nonmajor Governmental Funds:</u>		
Athletic and Music Special Revenue Fund	1,978	0
Building Capital Projects Fund	0	520,873
Total Nonmajor Funds	1,978	520,873
Total	\$522,851	\$522,851

The transfer to the Athletic and Music Special Revenue Fund of \$1,978 was made to cover the cheerleading advisor's pay. The transfer to the Ohio School Facilities Commission Capital Projects Fund of \$520,873 from the Building Capital Projects Fund was required to be made by the Ohio School Facilities Construction Project Agreement to cover any anticipated cost over-runs or contingencies. Any remaining funds may be transferred back into the Building Capital Projects Fund.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 10 - Interfund Balances

Individual interfund receivable and payable balances at June 30, 2007, are as follows:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	Other Nonmajor Governmental
Major Fund:	
General Fund	\$1,705,482
Other Nonmajor Governmental	120,219
Total All Funds	<u><u>\$1,825,701</u></u>

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

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Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Nondepreciable Capital Assets				
Land	\$1,004,172	\$1,211,241	(\$9,471)	\$2,205,942
Construction in Progress	0	215,522	0	215,522
Total NonDepreciable Capital Assets	1,004,172	1,426,763	(9,471)	2,421,464
Depreciable Capital Assets				
Buildings and Building Improvements	40,896,218	0	(877,825)	40,018,393
Improvements Other Than Buildings	1,375,953	81,755	0	1,457,708
Furniture, Fixtures, Equipment and Vehicles	2,201,358	77,051	(27,590)	2,250,819
Total at Estimated Historical Cost	44,473,529	158,806	(905,415)	43,726,920
Less Accumulated Depreciation				
Buildings and Building Improvements	(8,354,398)	(948,554)	442,242	(8,860,710)
Improvements Other Than Buildings	(1,103,177)	(27,908)	0	(1,131,085)
Furniture, Fixtures, Equipment and Vehicles	(1,471,280)	(144,021)	27,590	(1,587,711)
Total Accumulated Depreciation	(10,928,855)	(1,120,483) *	469,832	(11,579,506)
Depreciable Capital Assets, Net of Accumulated Depreciation	33,544,674	(961,677)	(435,583)	32,147,414
Governmental Activities Capital Assets, Net	\$34,548,846	\$465,086	(\$445,054)	\$34,568,878

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$983,718
Vocational Instruction	616
Support Services:	
Pupils	1,331
Instructional Staff	2,425
Board of Education	20,021
Administration	2,548
Operation and Maintenance of Plant	1,509
Pupil Transportation	80,499
Central	9,024
Operation of Non-instructional Services:	
Food Service Operations	12,485
Other	6,307
Total Depreciation Expense	\$1,120,483

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$490,953, \$464,252, and \$463,632, respectively; 47 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$258,742 represents the unpaid contribution for fiscal year 2007.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,318,503, \$2,242,168, and \$2,118,703; 78 percent has been contributed for fiscal year 2007, and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$12,769 made by the School District and \$22,151 made by the plan members. \$508,228 represents the unpaid contribution for fiscal year 2007.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement Board. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District this amount equaled \$179,282 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

Zanesville City School District
Notes to the Basic Financial Statements
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For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$244,952.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants receiving health care benefits

Note 14 - Other Employee Benefits

A. Compensated Absences

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

Certified administrative personnel who work 260 days receive 20 days of vacation leave as of January 1st (except for the Superintendent who receives 25 days) in the same year in which the services are rendered (except for the Treasurer who accrues vacation leave each month). The Superintendent, Assistant Superintendent, and Treasurer are allowed to maintain maximum leave balances of 40 days, 40 days, and 30 days, respectively. Accrued unused vacation leave is paid upon separation of service from the School District.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 272 days for certified employees and up to 260 days for classified employees, including the Superintendent and Treasurer. Upon retirement, certificated employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 68 days. Classified employees, upon retirement, receive a severance payment for one-fourth of the total sick leave accumulation up to a maximum of 65 days. In addition, teachers may earn an additional day of sick leave compensation for each year that they served with perfect attendance.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

B. Insurance

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

C. Retirement Incentive

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$12,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in one lump sum in January following the year of retirement. The School District paid \$48,000 for retirement incentives during fiscal year 2007.

Note 15 - Long -Term Debt and Other Obligations

Detail of the changes in the long-term obligations of the School District for the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2002 School Facilities					
Serial Bonds - 2.25-5.38%	\$7,325,000	\$0	(\$540,000)	\$6,785,000	\$590,000
Term Bonds - 4.75-5.38%	25,900,000	0	0	25,900,000	0
2002 School Facilities - Capital Appreciation Bonds					
Original Issue	239,576	0	0	239,576	0
Accretion	96,945	31,031	0	127,976	0
2002 School Facilities - Serial / Term Bond Discount					
	(36,110)	0	1,538	(34,572)	0
2002 School Facilities - Serial/Term Bond Premium					
	229,447	0	(30,711)	198,736	0
Total Bonds	<u>33,754,858</u>	<u>31,031</u>	<u>(569,173)</u>	<u>33,216,716</u>	<u>590,000</u>
Retirement Incentive/ Termination					
Benefits Payable	0	1,909,661	0	1,909,661	629,887
Compensated Absences	2,603,858	315,520	(872,687)	2,046,691	51,638
Total Long-Term Obligations	<u>\$36,358,716</u>	<u>\$2,256,212</u>	<u>(\$1,441,860)</u>	<u>\$37,173,068</u>	<u>\$1,271,525</u>

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For the Fiscal Year Ended June 30, 2007

During December of 2002, the School District issued \$34,414,576 in voted general obligation bonds to repay outstanding bond anticipation notes. These general obligations were issued to pay the local share of school construction under the Ohio Classroom Facilities Assistance Program, as part of the Expedited Local Partnership Program. The bond issue included serial, term, and capital appreciations bonds in the amounts of \$8,275,000, \$25,900,000, and \$239,576. The bonds will be retired from the Bond Retirement Debt Service Fund. The bonds were sold at a premium of \$337,819 and a discount of \$41,540. The premium is reported as an increase to bonds payable while the discount is reported as a decrease to bonds payable. The premium and discount are being amortized over the life of the bonds using the straight-line method. The issuance costs of \$296,274 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. For fiscal year 2007, \$10,973 of the issuance costs were amortized. As of June 30, 2007, the School District had \$1,997,909 in unspent bond proceeds in the Building Capital Projects Fund.

The School District's overall legal debt margin at June 30, 2007 was \$22,027,315 with an unvoted debt margin of \$594,188. The School District was approved as a special needs district by the Ohio Department of Education. This approval was based on projected tax valuation growth figures submitted by the School District to the Ohio Department of Education which is used to calculate the legal debt margin.

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

Year	Principal Amount to be Redeemed
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:

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

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

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

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

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

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

The capital appreciation bonds mature on December 1, 2013. These bonds were issued at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$945,000. For fiscal year 2007, \$31,031 was accreted for a total bond liability of \$367,552.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A. Principal and Interest Requirements

A summary of the School District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2007, follows:

Years	General Obligation Bonds		
	Principal	Interest	Total
2008	\$590,000	\$1,543,614	\$2,133,614
2009	640,000	1,523,226	2,163,226
2010	695,000	1,500,611	2,195,611
2011	750,000	1,475,109	2,225,109
2012	810,000	1,445,728	2,255,728
2013-2017	4,329,576	7,450,796	11,780,372
2018-2022	7,365,000	5,254,356	12,619,356
2023-2027	10,390,000	3,156,025	13,546,025
2028-2030	7,355,000	538,962	7,893,962
Totals	\$32,924,576	\$23,888,427	\$56,813,003

B. Retirement Incentive/ Termination Benefits

Zanesville City School District offered a one-time only termination benefit incentive for teachers retiring or resigning at the end of fiscal year 2007 and fiscal year 2008. Teachers who were at the top of the salary schedule and who terminated employment, but were not eligible to retire, were eligible to receive a \$45,000 base payment. Those who were eligible to retire under STRS retirement criteria, and did retire, would receive the \$45,000 base payment as well as their normal severance payment. Twenty-six teachers who were eligible to retire and six teachers who were at the top of the pay scale participated at the end of fiscal year 2007. The School District contracted with Educators Preferred Corporation to administer the payment of these benefits to employees over a five to eight year period. However, the School District will retire this liability over a three year period. The first payment of \$658,843, \$629,887 representing the actual retirements and \$28,956 representing third-party administrator fees, is due in September 2007. The second payment of \$668,843, \$639,887 representing the actual retirements and \$28,956 representing third-party administrator fees, will be made in September 2008 and the third payment of \$668,843 \$639,887 representing the actual retirements and \$28,956 representing third-party administrator fees, will be made in September 2009. In addition, there are thirteen teachers that will participate in this program who will be retiring at the end of 2007-2008 school year, and the liability is unknown at this time and will be recorded at the end of fiscal year 2008.

C. Compensated Absences

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

Zanesville City School District
Notes to the Basic Financial Statements
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Note 16 - Statutory Reserves

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

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

	Textbooks	Capital Improvements
Set-aside reserve (cash) balance as of June 30, 2006	\$0	\$0
Carry over from prior year	(689,420)	0
Current year set-aside requirement	626,669	626,669
Ohio Department of Education Approved Waiver	(487,687)	0
Current year offsets	0	(2,380,410)
Qualifying disbursements	(130,574)	(213,677)
Total	(\$681,012)	(\$1,967,418)
Set-aside balance carried forward to future fiscal years	(\$681,012)	\$0
Set-aside reserve (cash) balance as of June 30, 2007	\$0	\$0

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

Note 17 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 18 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2007 the School District contracted with several different insurance providers for insurance coverage, as follows:

Insurance Provider	Coverage	Limit of Insurance	Deductible
Utica National Insurance Group	Building and Personal Property Blanket	\$96,411,415	\$5,000
Utica National Insurance Group	Commercial General Liability:		
	General Aggregate Limit	\$2,000,000	
	Completed Operations Aggregate Limit	\$2,000,000	
	Personal and Advertising Injury Limit	\$1,000,000	
	Each Occurrence Limit	\$1,000,000	
	Damage to Premises Rented Limit	\$100,000	
	Medical Expense Limit (Any One Person)	\$10,000	
Utica National Insurance Group	Commercial Inland Marine Coverage	\$1,465,940	\$1,000
Utica National Insurance Group	Commercial Auto Coverage:		
	Liability	\$1,000,000	
	Auto Medical Payments	\$1,000	
	Uninsured Motorists	\$50,000	
	Underinsured Motorists	\$50,000	
	Comprehensive	Cash Value	\$1,000
	Collision	Cash Value	\$1,000
Utica National Insurance Group	Commercial Crime Coverage:		
	Inside the Premises - Per occurrence	\$25,000	
	Outside the Premises - Per messenger	\$25,000	
	Forgery or Alteration - Per occurrence	\$100,000	
	Employee Dishonesty - Per employee	\$100,000	
Utica National Insurance Group	Commercial Umbrella Liability:		
	General Aggregate Limit	\$3,000,000	
	Completed Operations Aggregate Limit	\$3,000,000	
	Each Incident Limit	\$3,000,000	
	Retained Limits-Each Incident	\$10,000	
Utica National Insurance Group	Commercial Property Coverage (Auxiliary Srvs):		
	Building and Personal Property Blanket	\$377,177	\$1,000
State Auto Insurance Company	Commercial Inland Marine Coverage	\$5,590	\$250
Cincinnati Insurance Company	Public Official's Bond - Treasurer	\$50,000	
Cincinnati Insurance Company	Public Official's Bond - Superintendent	\$20,000	
Cincinnati Insurance Company	Public Official's Bond - Board President	\$20,000	

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

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

For fiscal year 2007, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Beginning in fiscal year 2007, medical, surgical, prescription drug and dental insurance was offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$551,349 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchased an aggregate stop-loss coverage policy in the amount of \$6,180,946 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in claims activity for the past fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$0	\$4,190,198	\$3,638,849	\$551,349

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2007, the School District paid \$257,935 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2007, the School District made payments totaling \$10,378 for day care services to the Center. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of 166 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. During fiscal year 2007, the School District made a payment of \$1,637 to MEC for a membership fee. Financial information may be obtained from the Metropolitan Educational Council, Denise Canfield, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, OH 43219.

D. East Central Ohio Special Education Regional Resource Center (ECO SERRC)

The School District participates in the East Central Ohio Special Education Regional Resource Center (ECO SERRC), a jointly governed organization. The organization selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2007, the School District paid \$175 to Tuscarawas-Carroll-Harrison Educational Service Center for ECO SERRC services. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

E. Coalition of Rural and Appalachian Schools (CORAS)

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

The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2007.

Note 20 - Insurance Purchasing Pools

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

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

B. Ohio School Benefits Cooperative (OSBC)

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

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. The first option is that participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The School District participates in the second option. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2007, the School District elected to participate in the self-insured purchasing program for medical, prescription drug, and dental coverage.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 21 - Contractual Obligations

As of June 30, 2007, the School District had a contractual purchase commitment for architectural services relating to the Phase II of the Ohio School Facilities Project. The contract amount for these services is as follows:

Contractor	Fund	Purchase Commitments	Amounts Paid as of 06/30/2007	Amounts Remaining on Contracts
Stubbs, Addis, Schappa, McDonald Architects, Ltd.	Ohio School Facilities Commission Project	\$3,303,032	\$148,636	\$3,154,396

Note 22 - Subsequent Event

A. Zanesville Community High School

During fiscal year 2007, the School District Board of Education approved the establishment of the Zanesville Community High School that will begin operating during fiscal year 2008. The Zanesville Community High School is a legally separate community school created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The Zanesville Community High School's mission, under a contractual agreement with the School District (Zanesville Community High School's sponsor), is to help at-risk students meet Ohio's graduation requirements. The Zanesville Community High School focuses on ensuring that basic survival needs are met so that students can achieve success in school. The Zanesville Community High School serves high school age students and above who have dropped out or are at risk of dropping out of school. A particular emphasis is placed on assisting parenting and/or pregnant students obtain a high school diploma.

The Zanesville Community High School operates under the direction of a seven-member Board of Directors made up of seven community members recommended by the Executive Director after consulting with the Sponsor's superintendent. All governing authority members should live and/or work in the Zanesville-Muskingum County community as well as to represent the interest of the Muskingum County community.

B. Termination Benefit Incentive

The termination benefit incentive package that was offered at the end of 2007-2008 school year, had a total cost of \$1,909,601. The School District's first payment of \$658,843, \$629,887 representing the actual retirements and \$28,956 representing third party administrator fees, is due in September 2007. The second payment of \$668,843, \$639,887 representing the actual retirements and \$28,956 representing third-party administrator fees, will be made in September 2008 and the third payment of \$668,843 \$639,887 representing the actual retirements and \$28,956 representing third-party administrator fees, will be made in September 2009. In addition, there are thirteen teachers that will participate in this program who will be retiring at the end of 2007-2008 school year, and the liability is unknown at this time and will be recorded at the end of fiscal year 2008.

Zanesville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 23 – Fiscal Caution

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE <i>Passed through Ohio Department of Education:</i>						
Food Distribution Program	10.550	N/A	\$	\$ 161,960	\$	\$ 161,960
Nutrition Cluster:						
School Breakfast Program	10.553	045179-05PU-2006	69,171		69,171	
	10.553	045179-05PU-2007	169,883		169,883	
Total School Breakfast Program			239,054	0	239,054	0
National School Lunch Program	10.555	045179-LLP1-2006	2,600		2,600	
	10.555	045179-LLP1-2007	10,524		10,524	
	10.555	045179-LLP4-2006	243,597		243,597	
	10.555	045179-LLP4-2007	624,791		624,791	
Total National School Lunch Program			881,512	0	881,512	0
Child and Adult Care Food Program	10.558	045179-CCMO-2006	19,051		19,051	
	10.558	045179-CCMO-2007	22,863		22,863	
	10.558	045179-LUCP-2006	941		941	
	10.558	045179-LUCP-2007	1,076		1,076	
Total Child and Adult Care Food Program			43,931	0	43,931	0
Summer Food Service Program for Children	10.559	045179-24PU-2006	10,616		10,616	
Total Summer Food Service Program for Children			10,616	0	10,616	0
Total Nutrition Cluster			1,175,113	0	1,175,113	0
Total United States Department of Agriculture			1,175,113	161,960	1,175,113	161,960
UNITED STATES DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	045179-C1S1-2006	250,821		346,532	
	84.010	045179-C1S1-2007	1,446,851		1,349,173	
	84.010	045179-C1SD-2006	32,377		1,070	
	84.010	045179-C1SD-2007	4,723		43,729	
	84.010	048884-C1SK-2006	10,016		4,214	
	84.010	048884-C1SK-2007	1,816		0	
Total Title I Grants to Local Educational Agencies			1,746,604	0	1,744,718	0
Special Education Grants to States	84.027	045179-6BSF-2006	160,368		155,869	
	84.027	045179-6BSF-2007	1,056,030		1,024,606	
Total Special Education Grants to States			1,216,398	0	1,180,475	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	045179-DRS1-2007	29,999		29,999	
Even Start: State Educational Agencies	84.213	045179-EVS1-2006	0		11,031	
	84.213	045179-EVS1-2007	143,123		117,061	
Total Even Start: State Educational Agencies			143,123	0	128,092	0
Twenty-First Century Community Learning Centers	84.287	045179-T1S1-2006	72,596		84,467	
	84.287	045179-T1S1-2007	364,310		324,832	
Total Twenty-First Century Community Learning Centers			436,906	0	409,299	0

(Continued)

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
State Grants for Innovative Programs	84.298	045179-C2S1-2006	0		4,279	
	84.298	045179-C2S1-2007	7,128		6,275	
Total State Grants for Innovative Programs			7,128	0	10,554	0
Education Technology State Grants	84.318	045179-TJS1-2006	(5,946)		0	
	84.318	045179-TJS1-2007	35,283		27,223	
Total Education Technology State Grants			29,337	0	27,223	0
Improving Teacher Quality	84.367	045179-TRS1-2006	43,645		74,605	
	84.367	045179-TRS1-2007	396,594		345,641	
Total Improving Teacher Quality			440,239	0	420,246	0
Total United States Department of Education			4,049,734	0	3,950,606	0
Total Federal Awards Receipts and Expenditures			\$ 5,224,847	\$ 161,960	\$ 5,125,719	\$ 161,960

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 20, 2008, wherein we noted the School District is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-001, 2007-006, and 2007-007.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the School District's management in a separate letter dated May 20, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated May 20, 2008.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

May 20, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Zanesville City School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Zanesville City School District complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings as item 2007-008.

Internal Control Over Compliance

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

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as findings 2007-007 and 2007-008 to be significant deficiencies.

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

The School District's responses to the findings we identified are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

May 20, 2008

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster, CFDA Nos. 10.553, 10.555, 10.558, and 10.559 Special Education Grants to States, CFDA No. 84.027 Improving Teacher Quality, CFDA No. 84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

Noncompliance Citation and Significant Deficiency

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

ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-001 (Continued)

Noncompliance Citation and Significant Deficiency – Ohio Rev. Code Section 5705.41(D)(1)
(Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificates** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a sum not exceeding an amount established by resolution adopted by members of the Board against any specific line item account not extending beyond the end of the fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The School District did not certify the availability of funds prior to purchase commitment for 7% of expenditures tested. In addition, our search for unrecorded purchase commitments noted General Fund commitments of \$287,566 at fiscal year end for which prior certification had not been obtained. Failure to properly certify the availability of funds can result in further deficit spending.

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-001 (Continued)

**Noncompliance Citation and Significant Deficiency – Ohio Rev. Code Section 5705.41(D)(1)
(Continued)**

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

Officials' Response

In rare instances (7% of tested expenditures) purchases were made prior to the service or supply being ordered. We will continue to educate staff about the requirement and importance of doing a requisition prior to ordering services/supplies.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10(H) states, in part, that money paid into a fund must be used for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The School District had negative fund balances at month end for the following funds and months tested during fiscal year 2007:

Fund	September 2006 <u>Variance</u>	December 2006 <u>Variance</u>	March 2007 <u>Variance</u>	June 2007 <u>Variance</u>
General Fund (001)	(\$1,134,668)	(\$1,589,769)		(\$1,711,461)
Lunchroom Fund (006)	(\$107,268)	(\$17,701)		(\$77,855)
Uniform School Supply Fund (009)		(\$1,691)	(\$1,425)	(\$575)
Latchkey Fund (013)				(\$2,474)
Rotary Fund (014)		(\$16,981)	(\$11,365)	(\$20,920)
School Net Fund (450)			(\$891)	
Ohio Reads Fund (459)	(\$2,195)			(\$18,970)
Title VIB Fund (516)		(\$3,956)		
Title I Fund (572)	(\$226,534)	(\$12,822)		
Title IIA Fund (590)	(\$12,638)	(\$4,751)		
Miscellaneous Federal Grant Fund (599)	(\$46,266)			

We recommend the School District only use money for the purposes for which each fund has been established.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-002 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.10 (H) (Continued)

Officials' Response

Our district was in a fiscal caution status in fiscal year 2006 and is presently in fiscal caution. This results in deficit cash balances throughout the fiscal year.

State and Federal funds in deficit balances were due to cash requests from the Ohio Department of Education being received after the end of those months noted.

FINDING NUMBER 2007-003

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(5) provides that total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund in the official certificate of estimated resources or any amendment thereof, certified prior to the making of the appropriation or supplemental appropriation.

Ohio Rev. Code Section 5705.39 prohibits total appropriations in each fund from exceeding total estimated resources.

Appropriations exceeded estimated resources at month end in the following funds and months tested during fiscal year 2007:

<u>Month</u>	<u>Fund</u>	<u>Amount</u>
June 30, 2007	General Fund	(\$2,036,452)
June 30, 2007	Lunchroom Fund	(\$210,262)
June 30, 2007	Rotary Fund	(\$35,856)
January 31, 2007	General Fund	(\$1,223,231)
December 31, 2006	General Fund	(\$338,706)
December 31, 2006	Miscellaneous Federal Grants Fund	(\$300,000)

The above excess of \$2,036,451 for the General Fund differs from the excess of \$2,066,757 reported in the Notes to the Basic Financial Statements due to the combination of funds for GAAP reporting purposes and due to the effect of posting a 2006 audit adjustment to the 2007 receipts.

Adopting appropriations in excess of estimated resources could result in deficit cash balances as evidenced by the deficit cash balances reported in finding number 2007-002.

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-003(Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.36(A)(5) (Continued)

Officials' Response

Our district was in a fiscal caution status in fiscal year 2006 and is presently in fiscal caution. This is due to our expenditures exceeding revenue. This applies to the General and BPA Funds.

The Misc. Grant Fund obtained amendments to their estimated resources after board approval of the appropriations.

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits each subdivision or taxing authority from expending money unless it has been appropriated.

Expenditures exceeded appropriations at month end in the following funds for each of the three months tested for fiscal year 2007 as follows:

Fund	November 2006 Variance	February 2007 Variance	June 2007 Variance
OSFC Project Fund	\$0	\$0	(\$142,316)
Latchkey Fund	\$0	\$0	(\$10,289)
Self Insurance Fund	(\$1,455,971)	(\$2,371,293)	(\$440,050)
Poverty Based Assistance Fund	\$0	\$0	(\$32,280)
School Net Fund	\$0	(\$891)	\$0

Spending monies which have not been properly appropriated could result in deficit cash balances as evidenced by the deficit cash balances of \$891 in the School Net Fund as of March 31, 2007 and \$2,474 in the Latchkey Fund as of June 30, 2007.

We recommend the Treasurer refrain from making expenditures unless sufficient appropriations have been adopted by the Board and certified by the County Auditor.

Officials' Response

With the exception of the General Fund (see note with finding number 2007-002 above), all funds had sufficient balances to meet their expenditures. Board approved appropriation adjustments were made in March 2007 (after the November and February 2007 dates) for the Self-Insurance Fund. In June, several outstanding encumbrances were not cancelled at the end of the month causing the OSFC and the Self-Insurance Funds to have expenditures plus outstanding encumbrances exceed appropriations.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-005

Noncompliance Citation

Ohio Rev. Code Section 5705.412(B) states that no school district shall adopt any appropriation measure, make any qualifying contract, or increase during any school year any wage or salary schedule unless there is attached thereto a certificate, signed as required by this section, that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other sources available to the district at the time of certification, are sufficient to provide the operating revenues necessary to enable the district to maintain all personnel and programs for all the days set forth in its adopted school calendars for the current fiscal year and for a number of days in succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year.

The School District adopted amended appropriations and entered into an employee severance plan during the fiscal year; however, the School District did not certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year.

We recommend that Section 5705.412 certificates be executed for all appropriation measures, increased salary or wage schedules, and any other "qualifying contracts", including, negotiated agreements (e.g. professional association ["union"] contracts and contracts for benefits (e.g., major health insurance contracts) as required.

Officials' Response

A Certificate was not executed since the district is in fiscal caution.

FINDING NUMBER 2007-006

Significant Deficiency

School District management is responsible for maintaining an accounting system and accounting records sufficient to enable the School District to identify, assemble, analyze, classify, record and report its transactions and maintain accountability for its related assets and liabilities. The accounting system should assure that the financial assertions are achieved for all transaction types and account balances.

Zanesville City School District Board of Education Policy 7455 outlines the requirements for an asset to be capitalized and considered a capital asset for reporting purposes. In addition, this policy defines the categories of assets and the useful lives to be assigned to capital assets for depreciation purposes. This policy also requires each principal/department head to assure that four comparison tests are performed annually pertaining to capital assets.

The comparison tests are as follows:

- Compare a sample of capital asset purchases to the capital asset records to make sure they are properly recorded.
- Compare a sample of capital assets sold to the capital asset record to make sure the asset records now indicate the sale.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-006 (Continued)

Significant Deficiency – Capital Assets (Continued)

- Compare a sample of assets selected by observation from throughout the District to the capital asset record to make sure they are identified on the record and the associated information has been properly maintained.
- Select a sample of assets from the capital asset record and trace the records to the locations identified to verify the physical existence of the assets.

Once the comparisons are completed, they are to be reported to the Treasurer along with the building/department inventory for the Treasurer's final review and comparison. The policy also requires the use of identification tags and asset disposal forms.

During fiscal year 2007, the School District hired an appraisal firm to perform an appraisal of the School District's capital assets. However, our review noted that, in certain instances, capital assets were not always categorized and estimated useful lives were not always assigned in accordance with the District's capital asset policy. In addition, we noted that certain items were required to be removed from this listing for reporting purposes during the GAAP compilation process as these items, such as carpet and textbooks, did not meet the School District's definition of a capital asset. We also noted that the four required comparisons were not performed by the School District to provide assurances that the capital asset listing was updated appropriately with acquisitions and disposals which occurred during the fiscal year.

As a result, capital asset balances at the beginning of the fiscal year were restated to coincide with the balances prepared by the appraisal firm.

We recommend School District management review its capital asset policy and compare it to the policy followed by the appraisal firm to determine what policy the School District intends to follow. The School District should then prepare an amended policy and obtain the Board's approval. This procedure would help assure that capital assets are accounted for consistently from year to year. We also recommend the School District's management comply with existing School District policy by making the aforementioned comparisons. Documentation of asset disposals, including listings of assets sold at auctions and asset disposal forms should be prepared and used as a basis to update the capital asset records. Implementation of these procedures should help ensure that capital asset activity and balances are properly reported.

Officials' Response

To ensure uniformity between our policy and our procedures, we are presently reviewing our Capital Asset policy and how we report assets.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2007-007
CFDA Title and Number	Nutrition Cluster – CFDA Nos. 10.553, 10.555, 10.558, and 10.559
Federal Award Number / Year	045179-05PU-2006, 045179-05PU-2007, 045179-LLP1-2006, 045179-LLP1-2007, 045179-LLP4-2006, 045179-LLP4-2007, 045179-CCMO-2006, 045179-CCMO-2007, 045179-LUCP-2006, 045179-LUCP-2007, and 045179-24PU-2006
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Significant Deficiency

7 C.F.R. Section 210.8(a)(1) requires each school food authority with more than one school to perform no less than one on-site review of the lunch counting and claiming system employed by each school under its jurisdiction. The on-site review shall take place prior to February 1 of each school year. Further, if the review discloses problems with a school’s meal counting or claiming procedures, the school food authority shall: ensure that the school implements corrective action; and, within 45 days of the review, conduct a follow-up on-site review to determine that the corrective action resolved the problems. Each on-site review shall ensure that the school’s claim is based on the counting system authorized by the State agency under Sec. 210.7(c) of this part and that the counting system, as implemented, yields the actual number of reimbursable free, reduced price and paid lunches, respectively, served for each day of operation.

During September 2006, School District personnel performed on-site reviews for each school within the School District and every review indicated the school was operating without any weaknesses. However, we noted the following:

Question 4 of Part III from the Checklist was answered “yes” to indicate each school had proper procedures to manage and safeguard cash (reconciliation, extra item sales, adult meals, etc.). Our analysis of cash reconciliation procedures and subsequent testing at each of the schools indicated the following:

- A. For Grover Cleveland Middle School, which utilized the Café Terminal System, a Closing Receipt Report was printed for each day in order to perform a reconciliation between amounts on the Report and actual cash collected. However, there were no initials present on the reports to indicate that responsible parties compared cash to amounts on the reports and found overages/shortages, if any, to be reasonable. For the days we tested, the amounts noted as “Total in Till” agreed to deposit slips.
- B. For McIntire Munson Elementary School, which utilized a cash register, cash register tapes were attached to deposit slips. However, neither the cash register tapes nor the deposit tickets were initialed by responsible parties to indicate that cash as counted reconciled to collections per the cash register tapes. For the days we tested, variances existed from \$8 to \$70 between amounts per the deposit tickets and the cash register tapes (in most instances, amounts deposited were greater than amounts shown on cash register tapes).

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2007-007 (Continued)

Significant Deficiency (Continued)

- C. For National Road Elementary School and Rufus Putnam Elementary School, which utilized tally sheets, there were no initials on either the deposit slips or tally sheets indicating that a reconciliation between cash to meals served had been performed and overages/shortages, if any, were found to be reasonable. For the days we tested, amounts recorded on the CN-6's and CN-7's were traced to amounts deposited without exception.

- D. For Westview Elementary School, which utilized a cash register, cash register tapes were attached to deposit slips. However, neither the cash register tapes nor the deposit tickets were initialed by responsible parties to indicate that cash as counted reconciled to collections per the cash register tapes. For the days we tested, amounts on the cash register tapes were usually several dollars less than amounts on the deposit tickets.

- E. For Wilson Elementary School, which utilized pre-count forms and tally sheets, tally sheets were prepared at the point of service. However, the tally sheets did not include initials of a responsible party or other evidence to indicate that a reconciliation had been performed between amounts on the tally sheets and cash collected and overages/shortages, if any, were found to be reasonable. Although tally sheets provided evidence of student meals served, items such as milk, a la carte, and adult lunches were not documented . Amounts on the CN reports appeared to be timely deposited for the days we tested.

In addition, the Checklist was not accompanied by supporting documentation to indicate the time period and analyses performed upon which the Checklist answers were based.

Since the on-site review process is designed to detect and correct weaknesses, we recommend that School District personnel preparing the Checklist obtain the necessary understanding of each school's operations in order to answer each checklist item accurately. We also recommend that documentation be prepared and attached to each Checklist in order to support the answers recorded.

Every school should have formalized procedures whereby responsible parties count the cash collected and reconcile it to tally sheets, cash registers and/or Closing Receipt Reports. Any overages/shortages should be identified and the reconciliation should be initialed to provide evidence the reconciliation was performed and found to be acceptable. Management should monitor each school to assure that reconciliation procedures are being followed.

Officials' Response and Corrective Action Plan

We will reinforce with head cooks the need to properly sign off on all required paperwork.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2007-008
CFDA Title and Number	Nutrition Cluster – CFDA Nos. 10.553, 10.555, 10.558, and 10.559
Federal Award Number / Year	045179-05PU-2006, 045179-05PU-2007, 045179-LLP1-2006, 045179-LLP1-2007, 045179-LLP4-2006, 045179-LLP4-2007, 045179-CCMO-2006, 045179-CCMO-2007, 045179-LUCP-2006, 045179-LUCP-2007, and 045179-24PU-2006
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation and Significant Deficiency

7 C.F.R. Section 210.7(c)(1)(iii) requires that all claims for reimbursements be based on lunch counts, taken daily at the point of service, and correctly identify the number of free, reduced price and paid lunches served to eligible children. 7 C.F.R. Section 220.11(b) pertains to reimbursement procedures for breakfasts served, and requires that the Claim for Reimbursement for any month shall include only breakfasts served in that month, except if the first or last month of Program operations for any year contains 10 operating days or less, such month may be added to the Claim for Reimbursement for the appropriate adjacent month.

7 C.F.R. Section 210.23(c) requires school food authorities to retain necessary records for a period of 3 years after the date of submission of the final Claim for Reimbursement for the fiscal year. If audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit. In addition, Ohio Rev. Code Section 149.351(A) provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Rev. Code Sections 149.38 through 149.42.

During our audit of the Child Nutrition Cluster we noted the following exceptions:

- In the case of McIntire Munson Elementary School, the number and type of tickets presented at the point of service were recorded daily on a separate sheet and these separate sheets were retained by the School District and presented for audit. Documentation for October 13, 2006 did not agree to the amount reported on the CN-7 for lunches served. The CN-7 report showed that 34 paid lunches, 221 free lunches, and 10 reduced priced lunches were served, while the daily supporting documentation shows that 42 paid lunches, 205 free lunches, and 25 reduced price lunches were served. Furthermore, activity for December 1, 2006 was reported twice, once on the November 2006 CN-7 and once on the December 2006 CN-7. This resulted in a difference of \$750 between the amounts reimbursed and the amounts which should have been reimbursed for these items.
- In the case of National Road Elementary School, tally sheets were prepared daily to record the types and numbers of breakfasts and lunches served. However, a tally sheet was not retained and made available for audit for August 23, 2006. This resulted in \$712 of reimbursements for lunches and breakfasts served at National Road Elementary School on August 23, 2006 for which the District could not provide supporting documentation.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2007-008 (Continued)

Noncompliance Citation and Significant Deficiency - 7 C.F.R Section 210.7 (c)(1)(iii) (Continued)

- In the case of Roosevelt Middle School, daily reports were not retained to support free and reduced price meals served for the following dates: August 23, 24, 25, 28, 29, 30, & 31, 2006, and May 8, 16, 24, 25, 29, & 30, 2007. This resulted in \$7,070 of reimbursements for lunches and breakfasts served at Roosevelt Middle School for which the District could not provide appropriate supporting documentation.

The above variances are summarized in the following table.

	McIntire Munson Elementary	National Road Elementary	Roosevelt Middle School	Grand Total
Number of Paid Lunches Served	31	98	2,138	
Reimbursement Rate	\$0.25	\$0.25	\$0.23	
Subtotal	\$8	\$25	\$492	\$524
Number of Free Lunches Served	217	207	2,170	
Reimbursement Rate	\$2.42	\$2.42	\$2.40	
Subtotal	\$525	\$501	\$5,208	\$6,234
Number of Reduced Lunches Served	14	7	379	
Reimbursement Rate	\$2.02	\$2.02	\$2.00	
Subtotal	\$28	\$14	\$758	\$800
Number of Paid Breakfasts Served	1	4	18	
Reimbursement Rate	\$0.24	\$0.24	\$0.24	
Subtotal	\$0	\$1	\$4	\$6
Number of Free Breakfast Served	108	109	445	
Reimbursement Rate	\$1.56	\$1.56	\$1.31	
Subtotal	\$168	\$170	\$583	\$921
Number of Reduced Breakfasts Served	16	1	25	
Reimbursement Rate	\$1.26	\$1.26	\$1.01	
Subtotal	\$20	\$1	\$25	\$47
Grand Total	<u>\$750</u>	<u>\$712</u>	<u>\$7,070</u>	<u>\$8,532</u>

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2007-008 (Continued)

Noncompliance Citation and Significant Deficiency - 7 C.F.R Section 210.7 (c)(1)(iii) (Continued)

These exceptions may have been prevented had the School District implemented policies and procedures addressing the preparation and retention of required food service records for federal reimbursements.

Failure to maintain appropriate supporting documentation and to properly report the number and types of lunches served could result in questioned costs being issued against the School District.

We recommend the School District implement policies and procedures to ensure that the appropriate records are prepared and retained as required by state and federal regulations.

Officials' Response and Corrective Action Plan

At Roosevelt the computer didn't show any activity on the days in question and we couldn't find the information to back-up the activity. The computer issue has since been resolved.

At McIntire/Munson the head cook was counting breakfast in the lunch count and on occasion didn't change the count from breakfast.

We will reinforce with head cooks the requirement of keeping the required reports for the proper amount of time.

We had the State of Ohio come last year and do a review of our program for the last 5 years and we passed. They also did a nutrition assessment and we had to make a few small adjustments in reporting, but the portions and service was good.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	Ohio Rev. Code § 5705.412 – Failure to certify revenues available for a “qualifying contract.”	No.	Repeated in the current audit as finding number 2007-005.
2006-002	Ohio Rev. Code § 5705.39 – Appropriations in excess of estimated resources.	No.	Repeated in the current audit as finding number 2007-003.
2006-003	Ohio Rev. Code § 5705.41(B) – Expenditures in excess of appropriations.	No.	Repeated in the current audit as finding number 2007-004.
2006-004 and 2005-001	Ohio Rev. Code § 5705.10(H) – Negative fund cash balances.	No.	Repeated in the current audit as finding number 2007-002.
2006-005 and 2005-002	Various errors were noted in the District’s recording of Capital Assets.	No.	Repeated in the current audit as finding number 2007-006.
2006-006 and 2005-004	7 C.F.R. 210.8(a)(1) - Various control failures were noted in accounting for and reconciling food service receipts.	No.	Repeated in the current audit as finding number 2007-007.
2006-007	7 C.F.R. § 210.8(a)(2) – Lunch count data was not being reviewed prior to the submission on the monthly claim for reimbursement.	Yes.	
2006-008, 2005-003, and 2005-005	7 C.F.R. § 210.7(c)(1)(iii), 7 C.F.R § 220.11(b), 7 C.F.R. § 210.23(c), and Ohio Rev. Code § 149.351(A) – Missing food service records resulted in questioned costs of \$121,129 in the audit of fiscal year 2006 and \$22,208 in the audit of fiscal year 2005.	No.	Partially corrected. Repeated in the current audit as finding number 2007-008. Questioned costs were not required to be issued in the current audit.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2007**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2007-005 and 2007-006	See Officials' Response after each finding for the District's corrective action plan.	Ongoing.	Cindy Nye, Treasurer



Mary Taylor, CPA
Auditor of State

ZANESVILLE CITY SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 10, 2008**