



**Auditor of State  
Betty Montgomery**



**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**TABLE OF CONTENTS**

| <b>TITLE</b>   | <b>PAGE</b> |
|--|-------------|
| Independent Accountants' Report.....   | 1           |
| Management's Discussion and Analysis.....  | 3           |
| Basic Financial Statements:  |             |
| Government-Wide Financial Statements:  |             |
| Statement of Net Assets .....  | 11          |
| Statement of Activities .....  | 12          |
| Fund Financial Statements:   |             |
| Balance Sheet - Governmental Funds.....  | 13          |
| Statement of Revenues, Expenditures and Changes in Fund Balances -<br>Governmental Funds .....   | 15          |
| Statement of Revenues, Expenditures and Changes in Fund Balance -<br>Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....  | 17          |
| Statement of Net Assets - Fiduciary Funds .....  | 18          |
| Statement of Changes in Net Assets – Fiduciary Fund.....   | 19          |
| Notes to the Basic Financial Statements .....  | 20          |
| Schedule of Federal Awards Receipts and Expenditures.....  | 53          |
| Notes to Schedule of Federal Awards Receipts and Expenditures .....  | 54          |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on<br>Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....                     | 55          |
| Independent Accountants' Report on Compliance with Requirements Applicable to Each<br>Major Federal Program and Internal Control Over Compliance in Accordance<br>with OMB Circular A-133..... | 57          |
| Schedule of Findings - <i>OMB Circular A-133 § .505</i> .....  | 59          |
| Schedule of Prior Audit Findings - <i>OMB Circular A-133 § .315(b)</i> .....   | 62          |

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

We conducted our audit to opine on the financial statements that collectively comprise the 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 19, 2005

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004*

*Unaudited*

---

The discussion and analysis of Zanesville City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ Net assets decreased \$3,333,993, which represents a 48% decrease from 2003.
- ❑ General revenues accounted for \$30,583,553 in revenue or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$11,265,202 or 27% of total revenues of \$41,848,755.
- ❑ The District had \$45,182,748 in expenses related to governmental activities; only \$11,265,202 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$30,583,553 were not adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$28,289,239 in revenues and \$32,324,422 in expenditures. The General Fund's fund balance decreased \$2,467,694 to a deficit of \$1,436,814. The decrease was due to a combination of factors including an increase in instructional services.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

### Government-Wide Statements

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

# ZANESVILLE CITY SCHOOL DISTRICT

---

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004*

*Unaudited*

---

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

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

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

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

## Fund Financial Statements

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

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

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

## ZANESVILLE CITY SCHOOL DISTRICT

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004*

*Unaudited*

### FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2004 compared to 2003.

|  | Governmental<br>Activities |              | Increase<br>(Decrease) |
|--|----------------------------|--------------|------------------------|
|  | 2004                       | 2003         |                        |
| Current and other assets                           | \$43,617,859               | \$51,585,904 | (\$7,968,045)          |
| Capital assets, Net                                | 15,302,632                 | 8,462,832    | 6,839,800              |
| Total assets                                       | 58,920,491                 | 60,048,736   | (1,128,245)            |
| Long-term debt outstanding                         | 39,147,675                 | 38,958,175   | 189,500                |
| Other liabilities                                  | 16,187,307                 | 14,171,059   | 2,016,248              |
| Total liabilities                                  | 55,334,982                 | 53,129,234   | 2,205,748              |
| Net assets   |                            |              |                        |
| Invested in capital assets,<br>net of related debt | 5,974,857                  | 6,424,682    | (449,825)              |
| Restricted   | 2,121,452                  | 3,006,300    | (884,848)              |
| Unrestricted                                       | (4,510,800)                | (2,511,480)  | (1,999,320)            |
| Total net assets                                   | \$3,585,509                | \$6,919,502  | (\$3,333,993)          |

This space intentionally left blank.

## ZANESVILLE CITY SCHOOL DISTRICT

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004*

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

|   | Governmental<br>Activities |             |
|---|----------------------------|-------------|
|   | 2004                       | 2003        |
| Revenues  |                            |             |
| Program revenues:   |                            |             |
| Charges for Services and Sales                            | \$2,131,500                | \$1,704,728 |
| Operating Grants and Contributions                        | 8,548,445                  | 8,990,144   |
| Capital Grants and Contributions                          | 585,257                    | 235,610     |
| General revenues:   |                            |             |
| Property Taxes  | 11,860,287                 | 10,556,822  |
| Grants and Entitlements                                   | 17,152,786                 | 16,236,575  |
| Other   | 1,570,480                  | 1,262,623   |
| Total revenues  | 41,848,755                 | 38,986,502  |
| Program Expenses  |                            |             |
| Instruction   | 25,797,880                 | 23,659,948  |
| Support Services:   |                            |             |
| Pupils  | 1,787,848                  | 1,751,483   |
| Instructional Staff                                       | 2,911,210                  | 2,289,563   |
| Board of Education  | 188,303                    | 90,301      |
| Administration  | 3,252,027                  | 3,321,184   |
| Fiscal Services   | 640,092                    | 546,976     |
| Operation and Maintenance of Plant                        | 3,816,352                  | 3,341,485   |
| Pupil Transportation                                      | 1,223,855                  | 1,078,941   |
| Central   | 765,360                    | 696,896     |
| Operation of Non-Instructional Services                   | 1,993,948                  | 1,843,675   |
| Community Services  | 616,501                    | 761,106     |
| Extracurricular Activities                                | 580,889                    | 554,568     |
| Debt Service:   |                            |             |
| Interest and Fiscal Charges                               | 1,608,483                  | 1,336,196   |
| Total expenses  | 45,182,748                 | 41,272,322  |
| Special Item Gain on Demutualization of Insurance Company | 0                          | 2,820,084   |
| Total Change in Net Assets                                | (3,333,993)                | 534,264     |
| Beginning Net Assets                                      | 6,919,502                  | 6,385,238   |
| Total Change in Net Assets                                | \$3,585,509                | \$6,919,502 |

### Governmental Activities

Net assets of the District's governmental activities decreased by \$3,333,993. This was due to a combination of factors including an increase in interest and fiscal charges as the District continued paying scheduled interest payments on the 2002 school improvement general obligation bond. Also increased instruction costs were attributable to increased fringe benefit payments, and also higher payments for contracted services during the 2004 fiscal year.

## ZANESVILLE CITY SCHOOL DISTRICT

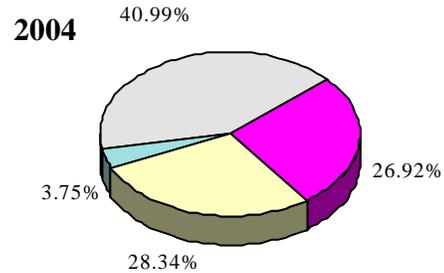
**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004**

**Unaudited**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 28.3% of revenues for governmental activities for Zanesville City Schools in fiscal year 2004. The District's reliance upon tax revenues is demonstrated by the following graph:

| Revenue Sources      | 2004                | Percent<br>of Total |
|----------------------|---------------------|---------------------|
| General Grants       | \$17,152,786        | 40.99%              |
| Program Revenues     | 11,265,202          | 26.92%              |
| General Tax Revenues | 11,860,287          | 28.34%              |
| General Other        | 1,570,480           | 3.75%               |
| Total Revenue        | <u>\$41,848,755</u> | <u>100.00%</u>      |



### FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$26,244,612, which is less than last year's balance of \$36,316,376. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

|                    | Fund Balance<br>(Deficit)<br>June 30, 2004 | Fund Balance<br>(Deficit)<br>June 30, 2003 | Increase<br>(Decrease) |
|--------------------|--|--|------------------------|
| General            | (\$1,436,814)                              | \$1,030,880                                | (\$2,467,694)          |
| Building           | 25,240,153                                 | 32,435,766                                 | (7,195,613)            |
| Other Governmental | 2,441,273                                  | 2,849,730                                  | (408,457)              |
| Total              | <u>\$26,244,612</u>                        | <u>\$36,316,376</u>                        | <u>(\$10,071,764)</u>  |

## ZANESVILLE CITY SCHOOL DISTRICT

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004**

**Unaudited**

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

|                             | 2004<br><u>Revenues</u>    | 2003<br><u>Revenues</u>    | Increase<br>(Decrease)  |
|-----------------------------|----------------------------|----------------------------|-------------------------|
| Taxes                       | \$9,816,907                | \$9,376,396                | \$440,511               |
| Tuition                     | 1,146,056                  | 592,829                    | 553,227                 |
| Investment Earnings         | 4,315                      | 235,974                    | (231,659)               |
| Extracurricular Activities  | 341                        | 53                         | 288                     |
| Class Materials and Fees    | 43,531                     | 37,611                     | 5,920                   |
| Intermediate Sources        | 29,221                     | 5,130                      | 24,091                  |
| Intergovernmental - State   | 17,036,755                 | 17,144,669                 | (107,914)               |
| Intergovernmental - Federal | 33,989                     | 873                        | 33,116                  |
| All Other Revenue           | 178,124                    | 14,253                     | 163,871                 |
| <b>Total</b>                | <b><u>\$28,289,239</u></b> | <b><u>\$27,407,788</u></b> | <b><u>\$881,451</u></b> |

General Fund revenues in 2004 increased approximately 3.2% compared to revenues in fiscal year 2003. The primary factors contributing to this increase included an increase in property tax and open enrollment tuition receipts.

|   | 2004<br><u>Expenditures</u> | 2003<br><u>Expenditures</u> | Increase<br>(Decrease)    |
|---|-----------------------------|-----------------------------|---------------------------|
| Instruction                             | \$20,363,616                | \$18,581,704                | \$1,781,912               |
| Supporting Services:                    |                             |                             |                           |
| Pupils                                  | 1,437,954                   | 1,371,718                   | 66,236                    |
| Instructional Staff                     | 1,129,314                   | 960,031                     | 169,283                   |
| Board of Education                      | 188,303                     | 90,301                      | 98,002                    |
| Administration                          | 2,946,794                   | 3,008,372                   | (61,578)                  |
| Fiscal Services                         | 595,863                     | 521,043                     | 74,820                    |
| Operation & Maintenance of Plant        | 3,240,415                   | 3,264,501                   | (24,086)                  |
| Pupil Transportation                    | 1,236,344                   | 936,707                     | 299,637                   |
| Central                                 | 699,172                     | 585,164                     | 114,008                   |
| Operation of Non-Instructional Services | 3,996                       | 5,222                       | (1,226)                   |
| Community Services                      | 147,263                     | 131,675                     | 15,588                    |
| Extracurricular Activities              | 332,113                     | 320,350                     | 11,763                    |
| Capital Outlay                          | 3,275                       | 46,241                      | (42,966)                  |
| <b>Total</b>                            | <b><u>\$32,324,422</u></b>  | <b><u>\$29,823,029</u></b>  | <b><u>\$2,501,393</u></b> |

## ZANESVILLE CITY SCHOOL DISTRICT

### *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004*

*Unaudited*

The expenditures increased by \$2,501,393 or 8.4% compared to the prior year mostly due to increased fringe benefits and higher contracted service costs.

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

During the course of fiscal year 2004 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$30.4 million, equaling original budget estimates of \$29.3 million. The General Fund had an adequate fund balance to cover expenditures.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### *Capital Assets*

At the end of fiscal year 2004 the District had \$15,302,632 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2003 and 2004 balances:

|                                | Governmental<br>Activities |                    | Increase<br>(Decrease) |
|--------------------------------|----------------------------|--------------------|------------------------|
|                                | 2004                       | 2003               |                        |
| Land                           | \$1,017,064                | \$1,017,064        | \$0                    |
| Construction in Progress       | 8,978,148                  | 1,906,725          | 7,071,423              |
| Buildings and Improvements     | 15,244,931                 | 15,244,931         | 0                      |
| Machinery and Equipment        | 431,229                    | 415,278            | 15,951                 |
| Vehicles                       | 1,356,935                  | 1,284,688          | 72,247                 |
| Less: Accumulated Depreciation | (11,725,675)               | (11,405,854)       | (319,821)              |
| Totals                         | <u>\$15,302,632</u>        | <u>\$8,462,832</u> | <u>\$6,839,800</u>     |

The primary increase occurred in construction in progress as the District began construction of new school buildings.

Additional information on the District's capital assets can be found in Note 9.

# ZANESVILLE CITY SCHOOL DISTRICT

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

Unaudited

### Debt

At June 30, 2004, the District had \$34.8 million in bonds outstanding, \$577,172 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

|                           | 2004                | 2003                |
|---------------------------|---------------------|---------------------|
| Governmental Activities:  |                     |                     |
| General Obligation Bonds: |                     |                     |
| Energy Conservation       | \$93,000            | \$186,000           |
| School Improvement        | 34,705,217          | 34,707,239          |
| Capital Leases Payable    | 1,078               | 13,568              |
| Compensated Absences      | 4,348,380           | 4,051,369           |
| Totals                    | <u>\$39,147,675</u> | <u>\$38,958,176</u> |

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 11.

### ECONOMIC FACTORS

The Zanesville City School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2004 the District received approximately 44% of its revenues from the state foundation program and 28% from local property taxes.

There are some uncontrollable variables that will affect revenues in future years. Some of these include the elimination of the three year averaging for ADM, accelerated phase out of personal property tax on inventory, state deduction for fees from rollback and homestead funds and reducing bus subsidy by 52 percent.

The 5-year budget for fiscal years 2005-2010 forecasts a deficit at the end of fiscal year 2006. The Board of Education approved approximately \$2,000,000 in expenditure reductions since fiscal year 2004. A cost savings of \$1.8 million resulted from the reduction of 33 positions since fiscal year 2003 through attrition. An additional levy may also be necessary in the very near future. In conclusion, the Zanesville City School District has committed itself to financial prudence in the years to come.

In May of 2002, the District passed a \$35,413,672 bond issue for school facility construction and improvements. It was part of the Expedited Local Partnership Plan with the Ohio School Facilities Commission. Phase one construction, which began in 2004, consists of the construction of two junior high schools and one elementary school and will be completed in the spring and fall of 2005. Phase two construction, which will begin in 2006, consists of the construction of one senior high school and four elementary schools at a cost of \$62,504,054.

### REQUESTS FOR INFORMATION

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

## ZANESVILLE CITY SCHOOL DISTRICT

### *Statement of Net Assets* *June 30, 2004*

|   | <b>Primary Government<br/>Governmental<br/>Activities</b> | <b>Component Unit<br/>Digital Academy</b> |
|---|---|---|
| <b>Assets:</b>                                  |   |   |
| Cash and Cash Equivalents                       | \$ 11,094,568   | \$ 116,242                                |
| Investments                                     | 18,520,866  | 0   |
| Receivables:                                    |   |   |
| Taxes   | 12,426,201  | 0   |
| Accounts  | 199,971   | 0   |
| Intergovernmental                               | 937,624   | 5,000                                     |
| Interest  | 33,675  | 0   |
| Inventory of Supplies at Cost                   | 31,607  | 0   |
| Deferred Charge                                 | 279,503   | 0   |
| Prepaid Items                                   | 58,642  | 0   |
| Restricted Assets:                              |   |   |
| Investments with Fiscal Agent                   | 35,202  | 0   |
| Capital Assets Not Being Depreciated            | 9,995,212   | 0   |
| Capital Assets Being Depreciated, Net           | 5,307,420   | 12,149                                    |
| <b>Total Assets</b>                             | <b>58,920,491</b>   | <b>133,391</b>                            |
| <b>Liabilities:</b>                             |   |   |
| Accounts Payable                                | 182,558   | 0   |
| Accrued Wages and Benefits                      | 5,181,996   | 0   |
| Intergovernmental Payable                       | 969,138   | 32,088                                    |
| Contracts Payable                               | 1,569,613   | 0   |
| Deferred Revenue - Taxes                        | 8,114,966   | 0   |
| Retainage Payable                               | 35,202  | 0   |
| Accrued Interest Payable                        | 133,834   | 0   |
| Long Term Liabilities:                          |   |   |
| Due Within One Year                             | 853,585   | 0   |
| Due in More Than One Year                       | 38,294,090  | 0   |
| <b>Total Liabilities</b>                        | <b>55,334,982</b>   | <b>32,088</b>                             |
| <b>Net Assets:</b>                              |   |   |
| Invested in Capital Assets, Net of Related Debt | 5,974,857   | 12,149                                    |
| Restricted For:                                 |   |   |
| Capital Projects                                | 382,838   | 0   |
| Debt Service                                    | 1,717,136   | 0   |
| Bus Purchase                                    | 13,643  | 0   |
| Other Purposes                                  | 7,835   | 0   |
| Unrestricted (Deficit)                          | (4,510,800)   | 89,154                                    |
| <b>Total Net Assets</b>                         | <b>\$ 3,585,509</b>                                       | <b>\$ 101,303</b>                         |

See accompanying notes to the basic financial statements

# ZANESVILLE CITY SCHOOL DISTRICT

## Statement of Activities For the Fiscal Year Ended June 30, 2004

|   | Program Revenues     |                                      |  |  | Net (Expense)<br>Revenues<br>and Changes<br>in Net Assets | Component<br>Unit  |
|---|----------------------|--------------------------------------|--|--|---|--------------------|
|   | Expenses             | Charges for<br>Services and<br>Sales | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                                | Digital<br>Academy |
| <b>Governmental Activities:</b>                             |                      |                                      |  |  |   |                    |
| Instruction   | \$ 25,797,880        | \$ 1,377,835                         | \$ 4,401,230                             | \$ 100,650                             | \$ (19,918,165)   |                    |
| Support Services:   |                      |                                      |  |  |   |                    |
| Pupils  | 1,787,848            | 0                                    | 330,268                                  | 0                                      | (1,457,580)   |                    |
| Instructional Staff   | 2,911,210            | 0                                    | 1,591,242                                | 0                                      | (1,319,968)   |                    |
| Board of Education  | 188,303              | 0                                    | 0  | 0                                      | (188,303)   |                    |
| Administration  | 3,252,027            | 0                                    | 220,535                                  | 0                                      | (3,031,492)   |                    |
| Fiscal Services   | 640,092              | 0                                    | 0  | 0                                      | (640,092)   |                    |
| Operation and Maintenance of Plant                          | 3,816,352            | 0                                    | 62,432                                   | 398,596                                | (3,355,324)   |                    |
| Pupil Transportation  | 1,223,855            | 0                                    | 24,161                                   | 86,011                                 | (1,113,683)   |                    |
| Central   | 765,360              | 0                                    | 51,724                                   | 0                                      | (713,636)   |                    |
| Operation of Non-Instructional Services                     | 1,993,948            | 563,065                              | 1,369,577                                | 0                                      | (61,306)  |                    |
| Community Services  | 616,501              | 0                                    | 496,157                                  | 0                                      | (120,344)   |                    |
| Extracurricular Activities                                  | 580,889              | 190,600                              | 1,119                                    | 0                                      | (389,170)   |                    |
| Debt Service:   |                      |                                      |  |  |   |                    |
| Interest and Fiscal Charges                                 | 1,608,483            | 0                                    | 0  | 0                                      | (1,608,483)   |                    |
| <b>Totals</b>   | <u>\$ 45,182,748</u> | <u>\$ 2,131,500</u>                  | <u>\$ 8,548,445</u>                      | <u>\$ 585,257</u>                      | <u>\$ (33,917,546)</u>                                    |                    |
| <b>Component Unit:</b>                                      |                      |                                      |  |  |   |                    |
| Digital Academy   | <u>\$ 154,189</u>    | <u>\$ 0</u>                          | <u>\$ 125,363</u>                        |  |   | <u>\$ (28,826)</u> |
| <b>General Revenues</b>                                     |                      |                                      |  |  |   |                    |
| Property Taxes Levied for:                                  |                      |                                      |  |  |   |                    |
| General Purposes  |                      |                                      |  | 9,703,485                              |   | 0                  |
| Debt Service  |                      |                                      |  | 2,156,802                              |   | 0                  |
| Grants and Entitlements not Restricted to Specific Programs |                      |                                      |  | 17,152,786                             |   | 105,000            |
| Investment Earnings   |                      |                                      |  | 462,288                                |   | 414                |
| Miscellaneous   |                      |                                      |  | 1,108,192                              |   | 0                  |
| Total General Revenues                                      |                      |                                      |  | <u>30,583,553</u>                      |   | <u>105,414</u>     |
| Change in Net Assets  |                      |                                      |  | (3,333,993)                            |   | 76,588             |
| Net Assets Beginning of Year                                |                      |                                      |  | 6,919,502                              |   | 24,715             |
| Net Assets End of Year                                      |                      |                                      |  | <u>\$ 3,585,509</u>                    |   | <u>\$ 101,303</u>  |

See accompanying notes to the basic financial statements

## ZANESVILLE CITY SCHOOL DISTRICT

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

|   | General              | Building             | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|----------------------|--------------------------------|--------------------------------|
| <b>Assets:</b>                              |                      |                      |                                |                                |
| Cash and Cash Equivalents                   | \$ 393,365           | \$ 8,354,953         | \$ 2,346,250                   | \$ 11,094,568                  |
| Investments                                 | 69,302               | 18,451,564           | 0                              | 18,520,866                     |
| Receivables:                                |                      |                      |                                |                                |
| Taxes                                       | 10,126,903           | 0                    | 2,299,298                      | 12,426,201                     |
| Accounts                                    | 175,864              | 0                    | 24,107                         | 199,971                        |
| Intergovernmental                           | 57,493               | 0                    | 880,131                        | 937,624                        |
| Interest                                    | 33,675               | 0                    | 0                              | 33,675                         |
| Interfund Loan Receivable                   | 16,170               | 0                    | 0                              | 16,170                         |
| Inventory Held for Resale                   | 0                    | 0                    | 31,607                         | 31,607                         |
| Prepaid Items                               | 39,156               | 17,999               | 1,487                          | 58,642                         |
| Restricted Assets:                          |                      |                      |                                |                                |
| Investments with Fiscal Agent               | 0                    | 35,202               | 0                              | 35,202                         |
| <b>Total Assets</b>                         | <b>\$ 10,911,928</b> | <b>\$ 26,859,718</b> | <b>\$ 5,582,880</b>            | <b>\$ 43,354,526</b>           |
| <b>Liabilities:</b>                         |                      |                      |                                |                                |
| Accounts Payable                            | \$ 87,203            | \$ 14,750            | \$ 80,605                      | \$ 182,558                     |
| Accrued Wages and Benefits                  | 4,010,885            | 0                    | 1,171,111                      | 5,181,996                      |
| Intergovernmental Payable                   | 481,176              | 0                    | 164,943                        | 646,119                        |
| Contracts Payable                           | 0                    | 1,569,613            | 0                              | 1,569,613                      |
| Interfund Loans Payable                     | 0                    | 0                    | 16,170                         | 16,170                         |
| Deferred Revenue - Taxes                    | 7,604,986            | 0                    | 1,586,563                      | 9,191,549                      |
| Deferred Revenue                            | 0                    | 0                    | 118,596                        | 118,596                        |
| Retainage Payable                           | 0                    | 35,202               | 0                              | 35,202                         |
| Compensated Absences Payable                | 164,492              | 0                    | 3,619                          | 168,111                        |
| <b>Total Liabilities</b>                    | <b>12,348,742</b>    | <b>1,619,565</b>     | <b>3,141,607</b>               | <b>17,109,914</b>              |
| <b>Fund Balances:</b>                       |                      |                      |                                |                                |
| Reserved for Encumbrances                   | 127,924              | 454,624              | 150,921                        | 733,469                        |
| Reserved for Prepaid Items                  | 39,156               | 17,999               | 1,487                          | 58,642                         |
| Reserved for Supplies Inventory             | 0                    | 0                    | 31,607                         | 31,607                         |
| Reserved for Debt Service                   | 0                    | 0                    | 891,487                        | 891,487                        |
| Reserved for Property Taxes                 | 2,521,917            | 0                    | 712,735                        | 3,234,652                      |
| Reserved for Bus Purchase                   | 13,643               | 0                    | 0                              | 13,643                         |
| Unreserved, Undesignated in:                |                      |                      |                                |                                |
| General Fund (Deficit)                      | (4,139,454)          | 0                    | 0                              | (4,139,454)                    |
| Special Revenue Funds                       | 0                    | 0                    | 427,965                        | 427,965                        |
| Capital Projects Funds                      | 0                    | 24,767,530           | 225,071                        | 24,992,601                     |
| <b>Total Fund Balances</b>                  | <b>(1,436,814)</b>   | <b>25,240,153</b>    | <b>2,441,273</b>               | <b>26,244,612</b>              |
| <b>Total Liabilities and Funds Balances</b> | <b>\$ 10,911,928</b> | <b>\$ 26,859,718</b> | <b>\$ 5,582,880</b>            | <b>\$ 43,354,526</b>           |

See accompanying notes to the basic financial statements

**ZANESVILLE CITY SCHOOL DISTRICT**

---

***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
June 30, 2004***

---

**Total Governmental Fund Balances** \$ 26,244,612

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

Capital Assets used in governmental activities are not  
resources and therefore are not reported in the funds. 15,302,632

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds. 1,195,179

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

|                                  |              |              |
|----------------------------------|--------------|--------------|
| General Obligation Bonds Payable | (34,798,217) |              |
| Deferred Charge                  | 279,503      |              |
| Compensated Absences Payable     | (4,180,269)  |              |
| Capital Leases Payable           | (1,078)      |              |
| Accrued Interest Payable         | (133,834)    |              |
| Pension Obligation               | (323,019)    |              |
|                                  |              | (39,156,914) |

***Net Assets of Governmental Activities*** \$ 3,585,509

See accompanying notes to the basic financial statements

## ZANESVILLE CITY SCHOOL DISTRICT

### Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

|   | General               | Building             | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-----------------------|----------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>  |                       |                      |                                |                                |
| Taxes   | \$ 9,816,907          | \$ 0                 | \$ 1,978,289                   | \$ 11,795,196                  |
| Tuition   | 1,146,056             | 0                    | 188,248                        | 1,334,304                      |
| Investment Earnings   | 4,315                 | 499,191              | 820                            | 504,326                        |
| Food Services   | 0                     | 0                    | 563,065                        | 563,065                        |
| Extracurricular Activities  | 341                   | 0                    | 190,259                        | 190,600                        |
| Class Materials and Fees  | 43,531                | 0                    | 0                              | 43,531                         |
| Intermediate Sources  | 29,221                | 0                    | 246,833                        | 276,054                        |
| Intergovernmental - State   | 17,036,755            | 0                    | 3,331,484                      | 20,368,239                     |
| Intergovernmental - Federal   | 33,989                | 0                    | 5,647,060                      | 5,681,049                      |
| All Other Revenue   | 178,124               | 0                    | 107,564                        | 285,688                        |
| <b>Total Revenue</b>  | <b>28,289,239</b>     | <b>499,191</b>       | <b>12,253,622</b>              | <b>41,042,052</b>              |
| <b>Expenditures:</b>  |                       |                      |                                |                                |
| Current:  |                       |                      |                                |                                |
| Instruction   | 20,363,616            | 0                    | 5,142,081                      | 25,505,697                     |
| Supporting Services:  |                       |                      |                                |                                |
| Pupils  | 1,437,954             | 0                    | 338,278                        | 1,776,232                      |
| Instructional Staff   | 1,129,314             | 0                    | 1,721,690                      | 2,851,004                      |
| Board of Education  | 188,303               | 0                    | 0                              | 188,303                        |
| Administration  | 2,946,794             | 0                    | 247,990                        | 3,194,784                      |
| Fiscal Services   | 595,863               | 0                    | 42,356                         | 638,219                        |
| Operation & Maintenance of Plant                                    | 3,240,415             | 0                    | 70,020                         | 3,310,435                      |
| Pupil Transportation  | 1,236,344             | 0                    | 29,044                         | 1,265,388                      |
| Central   | 699,172               | 0                    | 63,244                         | 762,416                        |
| Operation of Non-Instructional Services                             | 3,996                 | 0                    | 1,970,255                      | 1,974,251                      |
| Community Services  | 147,263               | 0                    | 462,549                        | 609,812                        |
| Extracurricular Activities  | 332,113               | 0                    | 230,746                        | 562,859                        |
| Capital Outlay  | 3,275                 | 7,071,419            | 572,108                        | 7,646,802                      |
| Debt Service:   |                       |                      |                                |                                |
| Principal Retirement  | 0                     | 0                    | 93,000                         | 93,000                         |
| Interest & Fiscal Charges   | 0                     | 0                    | 1,599,979                      | 1,599,979                      |
| <b>Total Expenditures</b>   | <b>32,324,422</b>     | <b>7,071,419</b>     | <b>12,583,340</b>              | <b>51,979,181</b>              |
| Excess (Deficiency) of Revenues<br>Over Expenditures                | (4,035,183)           | (6,572,228)          | (329,718)                      | (10,937,129)                   |
| <b>Other Financing Sources (Uses):</b>                              |                       |                      |                                |                                |
| Transfers In  | 623,385               | 0                    | 30,795                         | 654,180                        |
| Transfers Out   | (30,795)              | (623,385)            | 0                              | (654,180)                      |
| Refund of Prior Year Expenditure                                    | 974,899               | 0                    | 0                              | 974,899                        |
| Refund of Prior Year Receipts                                       | 0                     | 0                    | (116,447)                      | (116,447)                      |
| <b>Total Other Financing Sources (Uses)</b>                         | <b>1,567,489</b>      | <b>(623,385)</b>     | <b>(85,652)</b>                | <b>858,452</b>                 |
| Net Change in Fund Balance  | (2,467,694)           | (7,195,613)          | (415,370)                      | (10,078,677)                   |
| <b>Fund Balances at Beginning of Year</b><br>- Restated, See Note 2 | 1,030,880             | 32,435,766           | 2,849,730                      | 36,316,376                     |
| Increase in Inventory Reserve                                       | 0                     | 0                    | 6,913                          | 6,913                          |
| <b>Fund Balances (Deficits) End of Year</b>                         | <b>\$ (1,436,814)</b> | <b>\$ 25,240,153</b> | <b>\$ 2,441,273</b>            | <b>\$ 26,244,612</b>           |

See accompanying notes to the basic financial statements

## ZANESVILLE CITY SCHOOL DISTRICT

---

### ***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, 2004***

---

Net Change in Fund Balances - Total Governmental Funds \$ (10,078,677)

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

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

|                          |                  |           |
|--------------------------|------------------|-----------|
| Capital Outlay Additions | 7,225,678        |           |
| Depreciation Expense     | <u>(385,878)</u> |           |
|                          |                  | 6,839,800 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (51,749)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities. 105,490

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (8,504)

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

|  |              |                  |
|--|--------------|------------------|
| Compensated Absences                           | (128,900)    |                  |
| Pension Obligation (Intergovernmental Payable) | (18,366)     |                  |
| Change in Inventory                            | <u>6,913</u> |                  |
|  |              | <u>(140,353)</u> |

***Change in Net Assets of Governmental Activities*** **\$ (3,333,993)**

See accompanying notes to the basic financial statements

## ZANESVILLE CITY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2004**

|  | Original Budget   | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>Negative |
|--|-------------------|-------------------|-------------------|---|
| <b>Revenues:</b>   |                   |                   |                   |   |
| Local Sources:   |                   |                   |                   |   |
| Taxes  | \$ 9,900,449      | \$ 9,647,380      | \$ 10,406,283     | \$ 758,903  |
| Tuition  | 1,493,874         | 1,497,289         | 1,146,056         | (351,233)   |
| Investment Earnings  | 186,615           | 267,941           | 60,882            | (207,059)   |
| Extracurricular Activities                                   | 3,500             | 500               | 341               | (159)   |
| Class Material and Fees                                      | 37,332            | 37,332            | 42,836            | 5,504   |
| Intermediate Sources   | 5,130             | 16,825            | 29,221            | 12,396  |
| Intergovernmental - State                                    | 17,036,357        | 17,192,982        | 17,007,556        | (185,426)   |
| Intergovernmental - Federal                                  | 1,400             | 1,400             | 33,777            | 32,377  |
| All Other Revenues   | 25,100            | 25,100            | 118,566           | 93,466  |
| Total Revenues   | <u>28,689,757</u> | <u>28,686,749</u> | <u>28,845,518</u> | <u>158,769</u>  |
| <b>Expenditures:</b>   |                   |                   |                   |   |
| Current:   |                   |                   |                   |   |
| Instruction  | 19,186,385        | 18,934,880        | 19,997,756        | (1,062,876)   |
| Support Services:  |                   |                   |                   |   |
| Pupils   | 1,387,453         | 1,385,793         | 1,435,218         | (49,425)  |
| Instructional Staff  | 1,239,742         | 1,191,326         | 1,107,713         | 83,613  |
| Board of Education   | 122,616           | 196,646           | 195,832           | 814   |
| Administration   | 2,811,265         | 2,770,056         | 2,898,389         | (128,333)   |
| Fiscal Services  | 495,904           | 595,513           | 582,822           | 12,691  |
| Operation and Maintenance of Plant                           | 3,352,383         | 3,299,108         | 3,292,333         | 6,775   |
| Pupil Transportation   | 1,155,738         | 1,214,779         | 1,218,117         | (3,338)   |
| Central  | 719,059           | 741,014           | 704,032           | 36,982  |
| Operation of Non-Instructional Services                      | 8,300             | 7,100             | 4,842             | 2,258   |
| Community Services   | 135,507           | 135,507           | 136,826           | (1,319)   |
| Extracurricular Activities                                   | 322,024           | 322,024           | 331,704           | (9,680)   |
| Capital Outlay   | 0                 | 3,275             | 3,275             | 0   |
| Total Expenditures   | <u>30,936,376</u> | <u>30,797,021</u> | <u>31,908,859</u> | <u>(1,111,838)</u>                                    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | (2,246,619)       | (2,110,272)       | (3,063,341)       | (953,069)   |
| <b>Other Financing Sources (Uses):</b>                       |                   |                   |                   |   |
| Transfers In   | 623,385           | 623,385           | 623,385           | 0   |
| Transfers Out  | (40,000)          | (80,000)          | (30,795)          | 49,205  |
| Advances In  | 0                 | 0                 | 5,745             | 5,745   |
| Advances Out   | 0                 | 0                 | (13,170)          | (13,170)  |
| Refund of Prior Year's Expenditures                          | 0                 | 0                 | 921,812           | 921,812   |
| Total Other Financing Sources (Uses):                        | <u>583,385</u>    | <u>543,385</u>    | <u>1,506,977</u>  | <u>963,592</u>  |
| Net Change in Fund Balance                                   | (1,663,234)       | (1,566,887)       | (1,556,364)       | 10,523  |
| Fund Balance at Beginning of Year                            | 1,514,436         | 1,514,436         | 1,514,436         | 0   |
| Prior Year Encumbrances                                      | 357,536           | 357,536           | 357,536           | 0   |
| Fund Balance at End of Year                                  | <u>\$ 208,738</u> | <u>\$ 305,085</u> | <u>\$ 315,608</u> | <u>\$ 10,523</u>                                      |

See accompanying notes to the basic financial statements

## ZANESVILLE CITY SCHOOL DISTRICT

---

***Statement of Net Assets  
Fiduciary Funds  
June 30, 2004***

---

|                           | Private Purpose<br>Trust Fund | Agency Funds  | Total           |
|---------------------------|-------------------------------|---------------|-----------------|
| <b>Assets:</b>            |                               |               |                 |
| Cash and Cash Equivalents | \$ 9,151                      | \$ 30,365     | \$ 39,516       |
| <b>Total Assets</b>       | <u>9,151</u>                  | <u>30,365</u> | <u>39,516</u>   |
| <b>Liabilities:</b>       |                               |               |                 |
| Accounts Payable          | 104                           | 0             | 104             |
| Due to Others             | 0                             | 1,048         | 1,048           |
| Due to Students           | 0                             | 29,317        | 29,317          |
| <b>Total Liabilities</b>  | <u>104</u>                    | <u>30,365</u> | <u>30,469</u>   |
| <b>Net Assets:</b>        |                               |               |                 |
| Restricted For:           |                               |               |                 |
| Unclaimed Monies          | 1,014                         | 0             | 1,014           |
| Unrestricted              | 8,033                         | 0             | 8,033           |
| <b>Total Net Assets</b>   | <u>\$ 9,047</u>               | <u>\$ 0</u>   | <u>\$ 9,047</u> |

See accompanying notes to the basic financial statements

**ZANESVILLE CITY SCHOOL DISTRICT**

---

**Statement of Changes in Net Assets**  
**Fiduciary Fund**  
**For the Fiscal Year Ended June 30, 2004**

---

|                                 | <u>Private Purpose<br/>Trust Fund</u> |
|---------------------------------|---------------------------------------|
| <b>Additions:</b>               |                                       |
| Contributions:                  |                                       |
| Dues and Fees                   | \$           66                       |
| Private Donations               | 6,825                                 |
| Total Contributions             | <u>6,891</u>                          |
| <br>                            |                                       |
| <b>Deductions:</b>              |                                       |
| Administrative Expenses         | <u>5,884</u>                          |
| Total Deductions                | <u>5,884</u>                          |
| <br>                            |                                       |
| Change in Net Assets            | 1,007                                 |
| <br>                            |                                       |
| Net Assets at Beginning of Year | <u>8,040</u>                          |
| Net Assets End of Year          | <u>\$       9,047</u>                 |

See accompanying notes to the basic financial statements

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **A. Reporting Entity**

Zanesville City School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 204 classified and approximately 401 certified teaching personnel and administrative employees providing education to 4,207 students.

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

Discreetly Presented Component Unit - The component unit column on the Financial Statements includes the financial data of the District's component unit, the Zanesville Digital Academy (ZDA). It is reported in a separate column to emphasize that it is legally separate from the District.

In June 2002, the Board of Education, by resolution, created the ZDA pursuant to the laws of the State of Ohio. The ZDA is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The ZDA is governed by a seven member board. The board is composed of five members from the Zanesville City School District and two members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of ZDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by the conversion school. The District is able to impose its will on the ZDA. The District can suspend the ZDA's operations for any of the following reasons: 1) The ZDA's failure to meet student performance requirements stated in its contract with the District, 2) The ZDA's failure to meet generally accepted standards of fiscal management, 3) The ZDA's violation of any provisions of the contract with the District or applicable state or federal law, or 4) Other good

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **A. Reporting Entity** (Continued)

cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission and belief statements of ZDA and the children it serves. The ZDA was created to offer a distance learning-based curriculum to school-age children residing in the District. Separately issued financial statements can be obtained from the Zanesville Digital Academy, 160 North Fourth Street, Zanesville, Ohio 43701.

The District participates in two jointly governed organizations and three insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association, Mid-East Career and Technology Centers, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Ohio School Risk Sharing Authority. These organizations are presented in Notes 17 and 18 to the basic financial statements.

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

#### **B. Basis of Presentation - Fund Accounting**

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

The following fund types are used by the District:

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

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

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **B. Basis of Presentation - Fund Accounting** (Continued)

**Building Fund** - This fund is used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures represent the costs of acquiring capital facilities, including real property.

#### ***Fiduciary Funds***

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

#### **C. Basis of Presentation – Financial Statements**

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

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

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

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **C. Basis of Presentation – Financial Statements** (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

#### **D. Basis of Accounting**

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

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

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

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

Current property taxes measurable at June 30, 2004, and which are not intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2004 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **D. Basis of Accounting** (Continued)

**Revenues – Exchange and Non-exchange Transactions** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

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

#### **E. Budgetary Process**

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

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

Budgetary information for the ZDA's is not reported because it is not required to follow the budgetary provisions set forth in the Ohio Revised Code chapter 5705 unless specifically provided by the ZDA's contract with the District. The contract between the ZDA and the District prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **E. Budgetary Process** (Continued)

##### 1. Tax Budget

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

##### 2. Estimated Resources

Prior to April 1, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2004.

##### 3. Appropriations

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

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **E. Budgetary Process** (Continued)

##### 4. Encumbrances

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

##### 5. Lapsing of Appropriations

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

##### 6. Budgetary Basis of Accounting

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

This space intentionally left blank.

# ZANESVILLE CITY SCHOOL DISTRICT

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### E. Budgetary Process (Continued)

##### 6. Budgetary Basis of Accounting

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

|  | Net Change in Fund Balance |
|--|----------------------------|
|  | <u>General Fund</u>        |
| GAAP Basis (as reported)   | (\$2,467,694)              |
| Increase (Decrease):   |                            |
| Accrued Revenues<br>at June 30, 2004,<br>received during FY 2005 | (2,796,376)                |
| Accrued Revenues<br>at June 30, 2003,<br>received during FY 2004 | 3,288,897                  |
| Accrued Expenditures<br>at June 30, 2004,<br>paid during FY 2005 | 4,743,756                  |
| Accrued Expenditures<br>at June 30, 2003,<br>paid during FY 2004 | (4,254,081)                |
| FY 2003 Prepays for FY 2004                                      | 121,092                    |
| FY 2004 Prepays for FY 2005                                      | (39,156)                   |
| Encumbrances Outstanding<br>at June 30, 2004                     | (152,802)                  |
| Budget Basis   | <u>(\$1,556,364)</u>       |

#### F. Cash and Cash Equivalents

During fiscal year 2004, cash and cash equivalents included amounts in a demand deposit, money market mutual funds, a repurchase agreement and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

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

During fiscal year 2004, investments were limited to certificates of deposit, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, FREDDI MACS, and a US Treasury Note.

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **G. Investments**

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

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

#### **H. Inventory**

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

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

#### **I. Capital Assets and Depreciation**

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

##### **1. Property, Plant and Equipment - Governmental Activities**

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$5,000.

---

---

**ZANESVILLE CITY SCHOOL DISTRICT**

---

---

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Capital Assets and Depreciation** (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

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

2. Depreciation

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

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

**J. Long-Term Obligations**

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

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

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **K. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve-month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the termination method. Employees may earn 15 days of sick leave per year up to a maximum of 258 or 266 days, depending on their job classification. Upon retirement, employees will receive one-fourth of the accumulated sick leave up to a maximum of between 62 and 66 days depending upon their job classification. In addition, teachers may earn an additional day of sick leave compensation for each year that they served with perfect attendance. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

##### **L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

##### **M. Pensions**

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

# ZANESVILLE CITY SCHOOL DISTRICT

---

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **N. Interfund Activity**

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

#### **O. Restricted Assets**

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

#### **P. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for debt service, prepaid items, property taxes, inventory of supplies and materials, bus purchases, unclaimed monies, and encumbered amounts which have not been accrued at year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

#### **Q. Estimates**

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

#### **R. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

#### **S. Extraordinary and Special Items**

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

## **ZANESVILLE CITY SCHOOL DISTRICT**

---

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004***

---

#### **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPAL/RESTATEMENT OF FUND BALANCE**

##### **A. Change in Accounting Principal**

For fiscal year 2004, the District has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”. This Statement further defines the guidelines of GASB Statement No. 14, “The Financial Reporting Entity”. The implementation of this new Statement had no effect on the District’s financial statements for fiscal year 2004.

##### **B. Restatement of Fund Balance**

Certain adjustments were made to the beginning net asset balance of the General Fund and Building Fund to account for the correction of errors in accounting for accrued interest receivable. The restatement resulted in a change in beginning of year fund balance as follows:

|                                | General<br>Fund | Building<br>Fund | Governmental<br>Activities |
|--------------------------------|-----------------|------------------|----------------------------|
| Fund Balance/Net Assets        |                 |                  |                            |
| June 30, 2003 (as reported)    | \$1,071,996     | \$32,394,650     | \$6,919,502                |
| Correction of accounting error | (41,116)        | 41,116           | 0                          |
| Fund Balance/Net Assets        |                 |                  |                            |
| June 30, 2003 (as restated)    | \$1,030,880     | \$32,435,766     | \$6,919,502                |

#### **NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

##### **A. Fund Deficits**

The fund deficits at June 30, 2004 of \$1,436,814 in the General Fund, \$16,414 in the Latchkey Fund, \$293 in the Severance Reserve Fund, \$236,257 in the Disadvantaged Pupil Impact Aid Fund, \$257 in the One Net Fund, \$11,398 in the Summer School Fund, and \$89 in the Title VI-B Fund (special revenue funds) arose from the recognition of expenditures under the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis of accounting. Deficits did not exist under the budgetary basis.

##### **B. Excess Expenditures over Appropriations**

For the year ended June 30, 2004, expenditures exceeded appropriations at the fund level (i.e., the legal level of budgetary control) as follows:

| Fund    | Excess       |
|---------|--------------|
| General | \$ 1,062,632 |

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- The State Treasury Asset Reserve of Ohio (STAR Ohio);

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

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

- Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
- Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

#### *Deposits:*

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

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

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

*Investments:*

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

#### **A. Deposits**

At year end the carrying amount of the District's deposits was \$9,855,356 and the bank balance was \$10,032,981. Of the bank balance, \$202,468 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$830,513 was uninsured and uncollateralized. All State statutory requirements for the deposit of money had been followed through June 28, 2004 but noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. Contrary to Ohio Revised Code Section 135.18 (A), the District's deposits exceeded the coverage provided by FDIC and pledged collateral. At June 30, 2004 deposits exceeded FDIC pledged collateral and pooled collateral by \$2,554,142.

#### **B. Investments**

The District's investments at June 30, 2004 were as follows:

| <u>Categorized Investments</u>         | <u>Category 2</u> | <u>Category 3</u>  | <u>Carrying Amount/<br/>Fair Value</u> |
|--|-------------------|--------------------|--|
| Repurchase Agreement                   | \$386,877         | N/A                | \$386,877                              |
| Federal Securities                     | N/A               | 8,586,776          | 8,586,776                              |
| Total Categorized                      | 386,877           | 8,586,776          | 8,973,653                              |
| <br><u>Non-Categorized Investments</u> |                   |                    |  |
| STAR Ohio                              | N/A               | N/A                | 4,419,402                              |
| Money Market Mutual Funds              | N/A               | N/A                | 6,441,741                              |
| Total Non-Categorized                  | N/A               | N/A                | 10,861,143                             |
| Total Investments                      | <u>\$386,877</u>  | <u>\$8,586,776</u> | <u>\$19,834,796</u>                    |

**ZANESVILLE CITY SCHOOL DISTRICT**

---

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004**

---

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

**C. Reconciliation of Cash, Cash Equivalents and Investments**

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

|   | Cash and Cash<br>Equivalents | Investments  |
|---|------------------------------|--------------|
| Per Combined Balance Sheet  | \$11,134,084                 | \$18,556,068 |
| Certificates of Deposits<br>(with maturities of more than three months) | 9,969,292                    | (9,969,292)  |
| Investments:  |                              |              |
| Repurchase Agreement  | (386,877)                    | 386,877      |
| STAR Ohio   | (4,419,402)                  | 4,419,402    |
| Money Market Mutual Funds   | (6,441,741)                  | 6,441,741    |
| Per GASB Statement No. 3  | \$9,855,356                  | \$19,834,796 |

**D. Component Unit**

At year end the carrying amount of the ZDA's deposits was of \$116,242 and the bank balance was \$116,242. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance, and \$16,242 was uninsured and uncollateralized.

**NOTE 5 - PROPERTY TAXES**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

## **ZANESVILLE CITY SCHOOL DISTRICT**

---

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004***

---

#### **NOTE 5 - PROPERTY TAXES (Continued)**

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Zanesville City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2004, upon which the 2003 levies were based, were as follows:

|  | 2003 Second Half     | 2004 First Half      |
|--|----------------------|----------------------|
|  | <u>Collections</u>   | <u>Collections</u>   |
| Agricultural/Residential and Other Real Estate | \$305,386,850        | \$325,708,850        |
| Public Utility Personal                        | 17,181,330           | 17,198,540           |
| Tangible Personal Property                     | <u>54,937,940</u>    | <u>53,697,016</u>    |
| Total Assessed Value                           | <u>\$377,506,120</u> | <u>\$396,604,406</u> |
| Tax rate per \$1,000 of assessed valuation     | \$49.63              | \$49.33              |

#### **NOTE 6 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, interest, accounts receivable and intergovernmental receivables.

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 7 - INTERFUND BALANCES**

Individual interfund receivable and payable balances at June 30, 2004, are as follows:

| Fund                              | Interfund Loans<br>Receivable | Interfund Loans<br>Payable |
|-----------------------------------|-------------------------------|----------------------------|
| General Fund                      | \$16,170                      | \$0                        |
| Nonmajor Governmental Funds:      |                               |                            |
| Latchkey Fund                     | 0                             | 4,760                      |
| Rotary Fund                       | 0                             | 3,000                      |
| Summer School Fund                | 0                             | 8,410                      |
| Total Nonmajor Governmental Funds | 0                             | 16,170                     |
| Totals                            | \$16,170                      | \$16,170                   |

#### **NOTE 8 - TRANSFERS**

Following is a summary of transfers in and out for all funds at June 30, 2004:

| Fund                                   | Transfer In | Transfer Out |
|--|-------------|--------------|
| General Fund                           | \$623,385   | \$30,795     |
| Building Fund                          | 0           | 623,385      |
| Nonmajor Governmental Funds:           |             |              |
| District Managed Student Activity Fund | 30,795      | 0            |
| Total Nonmajor Governmental Funds      | 30,795      | 0            |
| Totals                                 | \$654,180   | \$654,180    |

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

## ZANESVILLE CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

#### NOTE 9 - CAPITAL ASSETS

##### **A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at June 30, 2004:

*Historical Cost:*

| Class  | June 30, 2003       | Additions          | Deletions         | June 30, 2004       |
|--|---------------------|--------------------|-------------------|---------------------|
| <i>Capital assets not being depreciated:</i> |                     |                    |                   |                     |
| Land   | \$1,017,064         | \$0                | \$0               | \$1,017,064         |
| Construction in Progress                     | \$1,906,725         | 7,071,423          | 0                 | 8,978,148           |
| <i>Capital assets being depreciated:</i>     |                     |                    |                   |                     |
| Buildings and Improvement                    | 15,244,931          | 0                  | 0                 | 15,244,931          |
| Machinery and Equipment                      | 415,278             | 15,951             | 0                 | 431,229             |
| Vehicles                                     | 1,284,688           | 138,304            | (66,057)          | 1,356,935           |
| Total Cost                                   | <u>\$19,868,686</u> | <u>\$7,225,678</u> | <u>(\$66,057)</u> | <u>\$27,028,307</u> |

*Accumulated Depreciation:*

| Class                     | June 30, 2003         | Additions            | Deletions       | June 30, 2004         |
|---------------------------|-----------------------|----------------------|-----------------|-----------------------|
| Buildings and Improvement | (\$10,298,405)        | (\$255,055)          | \$0             | (\$10,553,460)        |
| Machinery and Equipment   | (213,792)             | (37,797)             | 0               | (251,589)             |
| Vehicles                  | (893,657)             | (93,026)             | 66,057          | (920,626)             |
| Total Depreciation        | <u>(\$11,405,854)</u> | <u>(\$385,878) *</u> | <u>\$66,057</u> | <u>(\$11,725,675)</u> |
| <i>Net Value:</i>         | <u>\$8,462,832</u>    |                      |                 | <u>\$15,302,632</u>   |

\* Depreciation expenses were charged to governmental functions as follows:

|   |                  |
|---|------------------|
| Instruction                             | \$161,142        |
| Support Services:                       |                  |
| Pupils                                  | 13,768           |
| Instructional Staff                     | 21,581           |
| Administration                          | 21,210           |
| Fiscal Services                         | 2,486            |
| Operations & Maintenance of Plant       | 23,144           |
| Pupil Transportation                    | 97,130           |
| Central                                 | 1,588            |
| Operation of Non-Instructional Services | 25,601           |
| Community Services                      | 994              |
| Extracurricular Activities              | 17,234           |
| Total Depreciation Expense              | <u>\$385,878</u> |

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### NOTE 9 - CAPITAL ASSETS (Continued)

##### **B. Component Unit**

Summary by category of changes in capital assets at June 30, 2004:

##### *Historical Cost:*

| <u>Class</u>                             | <u>June 30, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2004</u> |
|--|----------------------|------------------|------------------|----------------------|
| <i>Capital Assets being depreciated:</i> |                      |                  |                  |                      |
| Furniture, Fixtures and Equipment        | \$0                  | \$15,187         | \$0              | \$15,187             |
| Total Cost                               | <u>\$0</u>           | <u>\$15,187</u>  | <u>\$0</u>       | <u>\$15,187</u>      |

##### *Accumulated Depreciation:*

| <u>Class</u>                      | <u>June 30, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2004</u> |
|-----------------------------------|----------------------|------------------|------------------|----------------------|
| Furniture, Fixtures and Equipment | \$0                  | (\$3,038)        | \$0              | (\$3,038)            |
| Total Depreciation                | <u>\$0</u>           | <u>(\$3,038)</u> | <u>\$0</u>       | <u>(\$3,038)</u>     |
| <i>Net Value:</i>                 | <u>\$0</u>           |                  |                  | <u>\$12,149</u>      |

#### NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)**

##### **A. School Employees Retirement System of Ohio (SERS of Ohio) (Continued)**

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$734,688, \$749,943, and \$706,093, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$335,799.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 was \$300.8 million.

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

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

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$2,708,040, \$2,526,615, and \$2,425,900, respectively, which were equal to the required contributions for each year.

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

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$193,435 for the District. The balance of the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

## ZANESVILLE CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

#### **NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS**

Detail of the changes in the bonds, capital leases and compensated absences of the District for the year ended June 30, 2004 is as follows:

|                                 |   | Balance<br>June 30, 2003 | Additions          | Deductions           | Balance<br>June 30, 2004 | Amount Due<br>Within<br>One Year |
|---------------------------------|---|--------------------------|--------------------|----------------------|--------------------------|----------------------------------|
| <b>Governmental Activities:</b> |   |                          |                    |                      |                          |                                  |
| General Obligation Bonds:       |   |                          |                    |                      |                          |                                  |
| 1994                            | Energy Conservation   | 5.75%                    | \$186,000          | \$0                  | (\$93,000)               | \$93,000                         |
| 2001                            | School Facilities Current Interest Term Bonds                     | 4.75-5.38%               | 25,900,000         | 0                    | 0                        | 25,900,000                       |
| 2001                            | School Facilities Current Interest Serial Bonds                   | 2.25-5.38%               | 8,275,000          | 0                    | 0                        | 8,275,000                        |
| 2001                            | School Facilities Capital Appreciation Bonds                      |                          | 239,581            | 0                    | 0                        | 239,581                          |
| 2001                            | School Facilities Serial / Term Bond Discount                     |                          | (40,726)           | 0                    | 1,538                    | (39,188)                         |
| 2001                            | School Facilities Capital Appreciation Bonds Premium              |                          | 321,580            | 0                    | (30,711)                 | 290,869                          |
| 2001                            | School Facilities Capital Appreciation Bond Accumulated Accretion |                          | 11,804             | 27,151               | 0                        | 38,955                           |
|                                 | Total General Obligation Bonds                                    | 34,893,239               | 27,151             | (122,173)            | 34,798,217               | 577,172                          |
|                                 | Capital Leases  | 13,568                   | 0                  | (12,490)             | 1,078                    | 1,078                            |
|                                 | Compensated Absences  | 4,051,369                | 1,748,535          | (1,451,524)          | 4,348,380                | 275,335                          |
|                                 | Total Long-Term Obligations                                       | <u>\$38,958,176</u>      | <u>\$1,775,686</u> | <u>(\$1,586,187)</u> | <u>\$39,147,675</u>      | <u>\$853,585</u>                 |

During December of 2002, the School District issued \$34,414,581 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 bonds were issued for a twenty-six year period with a final maturity at December 1, 2029. The bonds will be retired from the debt service fund. As of June 30, 2004, the School District had \$26,996,050 in unspent bond proceeds in the Building Capital Projects Fund.

The overall debt margin of the District as of June 30, 2004 was \$1,787,667, with an unvoted margin of \$396,604.

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)**

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

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

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

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

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

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

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

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

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

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)**

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

| Year | Principal Amount to<br>be Redeemed |
|------|------------------------------------|
| 2027 | \$2,515,000                        |
| 2028 | 2,685,000                          |

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

The capital appreciation bonds mature on December 1, 2013. These bonds were purchased at a premium at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$945,000. For fiscal year 2004, \$27,151 was accreted for total bond liability of \$278,536.

#### **A. Principal and Interest Requirements**

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2004, follows:

| Years     | General Obligation Bonds |              |              |
|-----------|--------------------------|--------------|--------------|
|           | Principal                | Interest     | Total        |
| 2005      | \$548,000                | \$1,589,513  | \$2,137,513  |
| 2006      | 495,000                  | 1,575,223    | 2,070,223    |
| 2007      | 540,000                  | 1,560,964    | 2,100,964    |
| 2008      | 590,000                  | 1,543,614    | 2,133,614    |
| 2009      | 640,000                  | 1,523,226    | 2,163,226    |
| 2010-2014 | 3,369,581                | 7,935,096    | 11,304,677   |
| 2015-2019 | 5,840,000                | 6,248,472    | 12,088,472   |
| 2020-2024 | 8,490,000                | 4,497,900    | 12,987,900   |
| 2025-2029 | 11,840,000               | 2,085,705    | 13,925,705   |
| 2029-2030 | 2,155,000                | 54,414       | 2,209,414    |
| Totals    | \$34,507,581             | \$28,614,127 | \$63,121,708 |

## **ZANESVILLE CITY SCHOOL DISTRICT**

---

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004***

---

#### **NOTE 12 - CAPITAL LEASE COMMITMENTS**

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

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

| <u>Year Ending June 30,</u>  | <u>Capital Leases</u> |
|--|-----------------------|
| 2005   | <u>\$1,084</u>        |
| Minimum Lease Payments   | 1,084                 |
| Less: Amount representing interest at the District's<br>incremental borrowing rate of interest | <u>(6)</u>            |
| Present value of minimum lease payments  | <u><u>\$1,078</u></u> |

#### **NOTE 13 - STATUTORY RESERVES**

The 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. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is not longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's General Fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Worker's Compensation (BWC) refund monies remaining in the budget reserve set-aside. During fiscal year 2004, the Board enacted a resolution to transfer the \$672,162 budget reserve balance to the General Fund. The portion of these funds which represented BWC monies was \$295,465 and it was used to offset a General Fund budget deficit.

**ZANESVILLE CITY SCHOOL DISTRICT**

---

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004**

---

**NOTE 13 - STATUTORY RESERVES (Continued)**

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

|  | Textbook<br>Reserve | Capital<br>Acquisition<br>Reserve | Budget<br>Stabilization<br>Reserve | Total                |
|--|---------------------|-----------------------------------|------------------------------------|----------------------|
| Set-aside Cash Balance as of June 30, 2003 | (\$364,187)         | (\$1,088,717)                     | \$672,162                          | (\$780,742)          |
| Current Year Set-Aside Requirement         | 614,127             | 614,127                           | 0                                  | 1,228,254            |
| Current Year Offset Credits                | 0                   | (2,350,052)                       | 0                                  | (2,350,052)          |
| Qualifying Disbursements                   | (844,302)           | (622,545)                         | (672,162)                          | (2,139,009)          |
| Total                                      | <u>(\$594,362)</u>  | <u>(\$3,447,187)</u>              | <u>\$0</u>                         | <u>(\$4,041,549)</u> |
| Cash Balance Carried Forward to FY 2005    | <u>(\$594,362)</u>  | <u>(\$3,447,187)</u>              | <u>\$0</u>                         | <u>(\$4,041,549)</u> |

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

**NOTE 14 - CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**B. Litigation**

The District is party to legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2004.

## ZANESVILLE CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

#### NOTE 14 - CONTINGENCIES (Continued)

##### **C. State School Funding**

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

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

#### NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2004 the District contracted with several different insurance providers for various insurance coverages, as follows:

| <u>Insurance Provider</u>          | <u>Coverage</u>   | <u>Deductible</u> |
|------------------------------------|---|-------------------|
| Ohio School Risk Sharing Authority | Bus Fleet   | \$1,000           |
| Ohio School Risk Sharing Authority | Automobile Liability  | \$0               |
| Ohio School Risk Sharing Authority | Property, including Inland<br>Marine and<br>Miscellaneous Equipment | \$1,000           |
| Cincinnati Insurance Company       | Public Official Bonds   | \$0               |
| Ohio School Risk Sharing Authority | Automobile, Physical  | \$1,000           |
| Ohio School Risk Sharing Authority | Forgery or Alteration   | \$1,000           |
| Ohio School Risk Sharing Authority | Employee Dishonesty,<br>including faithful<br>performance of duty   | \$1,000           |
| Ohio School Plan                   | General Liability   | \$0               |
| National Casualty                  | Volunteers  | \$0               |
| State Auto Insurance Company       | Dental Lab  | \$250             |
| Ohio School Risk Sharing Authority | Computer Fraud  | \$1,000           |
| Ohio School Risk Sharing Authority | Theft, disappearance and<br>destruction                             | \$1,000           |
| Ohio School Risk Sharing Authority | Errors or Omissions   | \$5,000           |

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

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 15 - RISK MANAGEMENT (Continued)**

For fiscal year 2004, the District participated in the Ohio School Board Association Workers' Compensation Group Rating Plan (GRP), and insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. 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.

#### **NOTE 16 – RELATED PARTY TRANSACTIONS**

During fiscal year 2004, the District provided educational management information systems coordinating services and other administrative services to the Zanesville Digital Academy. As of June 30, 2004, all of these services were paid in full.

#### **NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS**

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

The 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, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302. During 2004, the District paid \$153,704 for services with TRECA.

##### **B. Mid-East Career and Technology Centers (Mid-East)**

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. Mid-East is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of Mid-East is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2004, the District made no contributions to Mid-East. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### NOTE 18 – INSURANCE PURCHASING POOLS

##### **A. Ohio School Boards Association Worker's Compensation Group Rating Plan**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), and 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 Plan**

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency Inc. and a partner of the Hylant Group Inc. Hylant Group Inc. is the administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

##### **C. Ohio School Risk Sharing Authority**

The District participates in the Ohio School Risk Sharing Authority (OSRSA), a protected self-insurance purchasing pool under the authority of Ohio Revised Code 2744. Sixty-six school districts, education service centers and joint vocational school districts participate in the OSRSA. OSRSA is governed by a board of trustees elected by members. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by OSRSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and public officials errors and omissions liability insurance.

## ZANESVILLE CITY SCHOOL DISTRICT

---

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

---

#### **NOTE 19 – ZANESVILLE DIGITAL ACADEMY**

##### **A. Continued Existence**

Due to changes in community school requirements and expectations of the operation of ZDA that would have resulted in deficit spending, and a lack of personnel to handle such requirements, ZDA ceased educational operations effective August 18, 2004 and filed a Certificate of Dissolution on October 14, 2004 with the Ohio Secretary of State. The articles of incorporation for ZDA require upon dissolution that any assets remaining shall be conveyed to the District to be used exclusively for public purposes.

##### **B. Subsequent Event**

As part of ZDA's Comprehensive Service Agreement with Tri-Rivers Educational Computer Association (TRECA), ZDA is responsible for recovering and returning equipment provided to TRECA if the equipment is damaged or not promptly returned. Subsequent to discontinuing operations, ZDA has been unable to recover certain computer equipment from students and, on March 28, 2005, ZDA paid TRECA \$15,500 to fulfill ZDA's contractual liability. ZDA is making attempts to recover this equipment from students and management is currently unable to determine the total amount of equipment, if any, that the Academy may be unable to recover.

**This page intentionally left blank.**

ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR<br>Pass-Through Grantor<br>Program Title  | Federal<br>CFDA<br>Number | Pass Through<br>Entity Number | Receipts            | Noncash<br>Receipts | Disbursements       | Noncash<br>Disbursements |
|---|---------------------------|-------------------------------|---------------------|---------------------|---------------------|--------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                           |                               |                     |                     |                     |                          |
| <i>Passed through Ohio Department of Education:</i>   |                           |                               |                     |                     |                     |                          |
| Nutrition Cluster:  |                           |                               |                     |                     |                     |                          |
| Food Distribution Program   | 10.550                    | N/A                           | \$                  | \$ 152,877          | \$                  | \$ 152,877               |
| School Breakfast Program  | 10.553                    | 48884-05PU-2003/2004          | 204,764             |                     | 204,764             |                          |
|   |                           | 045179-LLP1-2003/2004         | 14,031              |                     | 14,031              |                          |
| Total School Breakfast Program  |                           |                               | 218,795             | 0                   | 218,795             | 0                        |
| National School Lunch Program   | 10.555                    | 48884-LLP4-2003/2004          | 815,498             |                     | 815,498             |                          |
| Child and Adult Care Food Program   | 10.558                    | 45179-CCMO-2003/2004          | 1,617               |                     | 1,617               |                          |
| Total U.S. Department of Agriculture - Nutrition Cluster  |                           |                               | 1,035,910           | 152,877             | 1,035,910           | 152,877                  |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                           |                               |                     |                     |                     |                          |
| <i>Passed Through Ohio Department of Education:</i>   |                           |                               |                     |                     |                     |                          |
| Title I Grants to Local Educational Agencies  | 84.010                    | 045179-C1S1-2003              | 71,287              |                     | 393,771             |                          |
|   | 84.010                    | 045179-C1SD-2003              | 19,314              |                     |                     |                          |
|   | 84.010                    | 045179-C1S1-2004              | 1,867,019           |                     | 1,664,021           |                          |
|   | 84.010                    | 045179-C1SD-2004              | 7,822               |                     |                     |                          |
|   | 84.010                    | 048884-C1SK-2003              | 54,181              |                     | 92,209              |                          |
| Total Title I Grants to Local Educational Agencies  |                           |                               | 2,019,623           | 0                   | 2,150,001           | 0                        |
| Special Education Grants to States  | 84.027                    | 045179-6BSF-2003P             | 54,773              |                     | 83,475              |                          |
|   | 84.027                    | 045179-6BSF-2004              | 760,393             |                     | 739,710             |                          |
| Total Special Education Grants to States  |                           |                               | 815,166             | 0                   | 823,185             | 0                        |
| Safe and Drug-Free Schools and Communities:<br>State Grants   | 84.186                    | 045179-DRS1-2003              | 5,745               |                     |                     |                          |
|   | 84.186                    | 045179-DRS1-2004              | 47,852              |                     | 44,445              |                          |
| Total Safe and Drug-Free Schools and Communities:<br>State Grants                                     |                           |                               | 53,597              | 0                   | 44,445              | 0                        |
| Even Start: State Educational Agencies  | 84.213                    | 045179-EVS8-2003              | 16,362              |                     | 74,165              |                          |
|   | 84.213                    | 045179-EVS1-2004              | 149,462             |                     | 177,378             |                          |
| Total Even Start: State Educational Agencies  |                           |                               | 165,824             | 0                   | 251,543             | 0                        |
| State Grants for Innovative Programs  | 84.298                    | 045179-C2S1-2003              | 5,900               |                     | 7,826               |                          |
|   | 84.298                    | 045179-C2S1-2004              | 25,671              |                     | 23,190              |                          |
| Total State Grants for Innovative Programs  |                           |                               | 31,571              | 0                   | 31,016              | 0                        |
| Education Technology State Grants   | 84.318                    | 045179-TJS1-2003              | (467)               |                     |                     |                          |
|   | 84.318                    | 045179-TJS1-2004              | 39,994              |                     | 37,845              |                          |
| Total Education Technology State Grants   |                           |                               | 39,527              | 0                   | 37,845              | 0                        |
| Comprehensive School Reform Demonstration   | 84.332                    | 045179-RFS2-2001              | (1,195)             |                     |                     |                          |
|   | 84.332                    | 045179-RFCC-2003              | 3,683               |                     | 12,001              |                          |
|   | 84.332                    | 045179-RFCC-2004              | 62,730              |                     | 72,343              |                          |
| Total Comprehensive School Reform Demonstration   |                           |                               | 65,218              | 0                   | 84,344              | 0                        |
| School Renovation Grants  | 84.352A                   | 045179-ATS3-2002              | (172)               |                     | 3,025               |                          |
| Reading First State Grants  | 84.357                    | 045179-RSS1-2004              | 265,049             |                     | 243,656             |                          |
| Improving Teacher Quality   | 84.367                    | 045179-TRS1-2003              | (40,152)            |                     | 89,518              |                          |
|   | 84.367                    | 045179-TRS1-2004              | 458,498             |                     | 429,183             |                          |
| Total Improving Teacher Quality   |                           |                               | 418,346             | 0                   | 518,701             | 0                        |
| <i>Passed Through Ohio Department of Education and<br/>Ohio School Facilities Commission:</i>         |                           |                               |                     |                     |                     |                          |
| School Renovation Grants  | 84.352A                   | 838                           | 47,800              |                     | 45,867              |                          |
|   | 84.352A                   | 826                           | 312,840             |                     | 448,200             |                          |
| Total School Renovation, IDEA, and Technology Program   |                           |                               | 360,468             | 0                   | 497,092             | 0                        |
| Total U.S. Department of Education  |                           |                               | 4,234,389           | 0                   | 4,681,828           | 0                        |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>   |                           |                               |                     |                     |                     |                          |
| <i>Passed Through Ohio Department of Job and Family Services<br/>and Ohio Department of Education</i> |                           |                               |                     |                     |                     |                          |
| Temporary Assistance to Needy Families  | 93.558                    | N/A                           | 32,160              |                     |                     |                          |
| <i>Passed Through Ohio Department of MRDD:</i>  |                           |                               |                     |                     |                     |                          |
| Medical Assistance Program  | 93.778                    | N/A                           | 105,295             |                     | 105,295             |                          |
| Total U.S. Department of Health and Human Services  |                           |                               | 137,455             | 0                   | 105,295             | 0                        |
| <b>Total Federal Awards Receipts and Expenditures</b>   |                           |                               | <b>\$ 5,407,754</b> | <b>\$ 152,877</b>   | <b>\$ 5,823,033</b> | <b>\$ 152,877</b>        |

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, 2004**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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 – CHANGE IN METHODOLOGY FOR CARRYOVER PERIODS**

Prior to July 2002, the Ohio Department of Education (ODE) would award formula grants under the ESEA for a period of 27 months for all grants except Title I Basic Grants to States. (Title I was not permitted to have a 27 month period since, pursuant to the ESEA, local education agencies are permitted to carryover less than 15% of funds from year to year except for a waiver of that percentage which may be granted once every third year). Each year beginning July 1, another grant award would be approved. This created an overlap of grant awards to local agencies where up to three grant programs could be operating at the same time for exactly the same purpose. At the conclusion of the grant period, the District returned all unexpended funds and forfeited all undrawn funds.

Beginning in July 2002, ODE instituted a revised process to fund grants on a yearly cycle. A July 1 to June 30 fiscal period for each project aligns the project periods for all Federal and state projects as well as puts the projects on the same timing as the District's fiscal year mandated by the Ohio Revised Code. This system also permits the District to manage only one project from ODE rather than three under the previous system. There is no longer a question about which funding year a transaction can be assigned to when there is only one year for each project to operate under. This system should virtually eliminate refunds by operating under the business rule of old money being spent first by local educational agencies, regardless of when the funds were received.

During fiscal year 2004, the District had carryover funding that was transferred between special cost centers from program year 2003 grants to program year 2004 grants due to the ODE administrative action described above. These transfers of carryover funding and the corresponding expenditure of that carryover funding are reported in the Schedule as receipts and expenditures within the current year project.

**NOTE D – REFUND OF MONEY TO GRANTOR AGENCY**

During fiscal year 2004, the District returned funding to its grantor agencies due to the expiration of the period of availability. In August 2003, \$172 was returned to the Ohio Department to Education under CFDA No. 84.352. In January 2004, \$5,717 was returned to the Ohio Department of Education under CFDA No. 84.010. In January and February 2004, \$32,913 was returned to the Ohio Department of Education under CFDA No. 84.332.



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Zanesville City School District, Muskingum County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 19, 2005. 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 District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-003 listed above to be a material weakness. In a separate letter to the District's management dated August 19, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's basic 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 2004-001 and 2004-002. In a separate letter to the District's management dated August 19, 2005, we reported other matters related to noncompliance we deemed immaterial.

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.



**Betty Montgomery**  
Auditor of State

August 19, 2005



## Auditor of State Betty Montgomery

### 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 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, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the District's major federal programs. The 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 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 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 District's compliance with those requirements.

In our opinion, Zanesville City School District, Muskingum County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the District's management dated August 19, 2005, we reported other matters related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated August 19, 2005.

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.



**Betty Montgomery**  
Auditor of State

August 19, 2005

**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |   |   |
|---------------------|---|---|
| <i>(d)(1)(i)</i>    | <b>Type of Financial Statement Opinion</b>  | Unqualified   |
| <i>(d)(1)(ii)</i>   | <b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>         | Yes   |
| <i>(d)(1)(ii)</i>   | <b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b> | No  |
| <i>(d)(1)(iii)</i>  | <b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>                       | Yes   |
| <i>(d)(1)(iv)</i>   | <b>Were there any material internal control weakness conditions reported for major federal programs?</b>              | No  |
| <i>(d)(1)(iv)</i>   | <b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>      | No  |
| <i>(d)(1)(v)</i>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified   |
| <i>(d)(1)(vi)</i>   | <b>Are there any reportable findings under § .510?</b>  | No  |
| <i>(d)(1)(vii)</i>  | <b>Major Programs (list):</b>   | Special Education Grants to States, CFDA# 84.027<br>School Renovation, IDEA and Technology Program, CFDA# 84.352A<br>Reading First State Grants, CFDA# 84.357 |
| <i>(d)(1)(viii)</i> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others  |
| <i>(d)(1)(ix)</i>   | <b>Low Risk Auditee?</b>  | Yes   |

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

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

At June 30, 2004, expenditures in the General Fund exceeded appropriations by \$1,062,632. This occurred due to lack of monitoring of budgeted versus actual expenditures.

We recommend the Board of Education and the Treasurer periodically compare amounts spent to amounts appropriated and amend or supplement appropriations as necessary to prevent expenditures from exceeding appropriations.

**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

|   |
|---|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b> |
|---|

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

Ohio Rev. Code § 135.18(A) states, in part, that the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public monies to be at the time so deposited, over and above such portion or amount of such money as is at such time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. In the case of any deposit other than the initial deposit made during the period of designation, the amount of the aggregate market value of securities required to be pledged and deposited shall be equal to the difference between the amount of public moneys on deposit in such public depository plus the amount to be so deposited, minus the portion or amount of the aggregate as is at the time insured as provided in this section.

At First Federal Savings Bank (the Bank), between June 28, 2004 and September 10, 2004, the District's deposits exceeded the coverage provided by federal deposit insurance and pledged collateral. At June 30, 2004, deposits exceeded federal deposit insurance and pledged collateral by \$2,544,142. According to correspondence from the Bank, this noncompliance occurred as a result of a \$2.7 million letter of credit coming due on June 28, 2004 and not being replaced until September 10, 2004. Without adequate collateral, the District's funds may not be recovered, should the Bank's operations fail.

Although the contract between the District and the Bank requires the Bank to pledge sufficient collateral, we recommend the District Treasurer periodically compare deposits to the aggregate of federal deposit insurance and pledged collateral to ensure that deposits are adequately secured.

**FINDING NUMBER 2004-003**

**Material Weakness**

District management is responsible for maintaining an accounting system and accounting records sufficient to enable the 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 five basic financial assertions are achieved for all transaction types and account balances.

Our review of the District's capital assets policy disclosed the following weaknesses:

- The policy did not include a comprehensive schedule of estimated useful lives for all capital assets of the District.
- The policy omitted certain classifications of assets.
- Although the District's practice was to depreciate capital assets using a straight-line method, the policy did not include the method of depreciation.
- The policy did not include criteria to be used when determining whether expenditures should be capitalized as improvements or expensed as maintenance and repair items.

**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

|   |
|---|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b> |
|---|

**FINDING NUMBER 2004-003  
(Continued)**

**Material Weakness (Continued)**

- The method of accounting for donated assets was not included within the policy.
- The manner in which capital assets were valued (cost or estimated historical cost) was not included within the policy.
- The exclusion of textbooks and software from capitalization was not included within the policy.
- The performance of a physical inventory of the District's tangible capital assets, either simultaneously or on a rotating basis, so that all of the District's tangible capital assets are physically accounted for at least once every five years, was not included within the policy.
- The policy did not include a comprehensive process of identifying, tagging, and recording capital assets.

These weaknesses could allow for inconsistencies in reporting capital assets from year-to-year under generally accepted accounting principles. These weaknesses did result in the District's failure to capitalize new construction projects as construction in progress and other capital assets including two new buses, a copier and a video conference machine. This required us to perform extensive substantive procedures in order to gain the necessary assurances over management's assertions. Our testing also indicated the District included certain capital assets in the financial statements, which it no longer holds. These factors resulted in significant adjustments being required to the District's basic financial statements.

We recommend the District update its capital assets policy to address the above noted weaknesses. Once adopted, a copy of this policy should be provided both to the District personnel involved in the capital asset accounting process and to the consultant performing the District's financial statement compilation.

We also recommend the District develop a comprehensive process of identifying, tagging, and recording capital assets. The District should confirm all capital assets on record at the District's administrative office with those assets actually located at each building in order to identify any unrecorded capital asset additions or retirements for each fiscal year. The District should perform periodic reconciliations between capital outlay expenditures and capital asset acquisitions reported to the administrative office prior to the permanent capital asset reports being updated. This would significantly help the District assure all capitalizable costs are recorded in the capital asset system.

On June 22, 2005, the District adopted an updated capital asset policy that addressed many of the weaknesses noted above.

|                                       |
|---------------------------------------|
| <b>3. FINDINGS FOR FEDERAL AWARDS</b> |
|---------------------------------------|

No findings to report.

**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2004**

| <u>Finding Number</u> | <u>Finding Summary</u>   | <u>Fully Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;<br><b><u>Explain:</u></b>   |
|-----------------------|--|-------------------------|--|
| 2003-001              | A material weakness concerning the District's capital asset policy which had not been updated to address all of the requirements of Statement No. 34. The District's policy omitted certain classifications of assets and depreciation policies such as estimated useful lives and the method of depreciation to be used. Although the District had adopted a new capitalization threshold of \$5,000 during fiscal year 2003, the previous capitalization threshold of \$500 was utilized in the preparation of the basic financial statements. | No                      | Partially corrected. For fiscal year 2004, the District did utilize the new capitalization threshold of \$5,000 in preparation of the financial statements. However, the capital assets policy had not been updated and there were significant assets omitted from the financial statements. This finding is repeated as finding 2004-003. On June 22, 2005, the District adopted a revised capital asset policy that addresses a number of capital asset system weaknesses. |



**Auditor of State  
Betty Montgomery**

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

**ZANESVILLE CITY SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 22, 2005**