



**Auditor of State
Betty Montgomery**

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, 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, 2005, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2005, and the respective changes in financial position, where applicable, 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.

As described in Note 3, for the fiscal year ended June 30, 2005, the District implemented GASB Technical Bulletin No. 2004-02.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 19.

As more fully described in Note 20I, the District's component unit ceased operations and transferred all remaining assets to the District during fiscal year 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006, 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.

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 also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

September 7, 2006

ZANESVILLE CITY SCHOOL DISTRICT

Management's Discussion & Analysis For the Fiscal Year Ended June 30, 2005

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, 2005. 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 2005 are as follows:

- Net assets decreased \$1,871,781, which represents a 52% decrease from 2004.
- General Revenues accounted for \$31,303,953 in revenue or 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$11,126,875 or 26% of total revenues of \$42,430,828.
- The District had \$44,380,930 in expenses related to governmental activities; only \$11,126,875 of these expenses was offset by program specific charges for services, grants or contributions. General revenues of \$31,303,953 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$29,777,583 in revenues and \$31,990,339 in expenditures. The General Fund's fund balance decreased \$1,888,955 to a deficit of \$3,510,501. The balance of this fund decreased due to various factors as illustrated later within Management's Discussion and Analysis.

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 follow:

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.

The two government-wide statements report the Districts' net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) are 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.

ZANESVILLE CITY SCHOOL DISTRICT

**Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

To assess the overall health of the District, you need to consider additional non-financial 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 funds. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2005 compared to 2004.

	<u>Governmental Activities</u>		Increase/ (Decrease)
	2005	2004	
Current and other assets	\$21,845,664	\$43,617,859	(\$21,772,195)
Capital assets, Net	34,400,926	15,302,632	19,098,294
Total Assets	<u>56,246,590</u>	<u>58,920,491</u>	<u>(2,673,901)</u>
Long term debt outstanding	16,495,180	39,147,675	(22,652,495)
Other liabilities	38,037,682	16,187,307	21,850,375
Total Liabilities	<u>\$54,532,862</u>	<u>\$55,334,982</u>	<u>(802,120)</u>
Net Assets			
Invested in capital assets, net of related debt	6,849,779	5,974,857	874,922
Restricted	1,636,884	2,121,452	(484,568)
Unrestricted	<u>(6,772,935)</u>	<u>(4,510,800)</u>	<u>(2,262,135)</u>
Total Net Assets	<u>\$1,713,728</u>	<u>\$3,585,509</u>	<u>(\$1,871,781)</u>

ZANESVILLE CITY SCHOOL DISTRICT

**Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

Changes in Net Assets - The following table shows the changes in net assets for the fiscal year 2005:

	Governmental Activities	
	2005	2004
Revenues		
Program revenues:		
Charges for Services and Sales	\$2,190,818	\$2,131,500
Operating Grants and Contributions	8,851,336	8,548,445
Capital Grants and Contributions	84,721	585,257
General Revenues:		
Property Taxes	11,993,887	11,860,287
Grants and Entitlements	18,066,948	17,152,786
Other	1,243,118	1,570,480
Total Revenues	42,430,828	41,848,755
 Program Expenses		
Instruction	25,113,995	25,797,880
Support Services:		
Pupils	1,780,236	1,787,848
Instructional Staff	3,093,248	2,911,210
Board of Education	192,538	188,303
Administration	2,975,926	3,252,027
Fiscal Services	678,522	640,092
Operation and Maintenance of Plant	3,745,348	3,816,352
Pupil Transportation	1,201,176	1,223,855
Central	702,106	765,360
Operation of Non-Instructional Services	2,056,037	1,993,948
Community Services	687,519	616,501
Extracurricular Activities	556,832	580,889
Debt Service:		
Interest and Fiscal Charges	1,597,447	1,608,483
Total Expenses	44,380,930	45,182,748
 Special Item: Assets transferred to Primary Government Upon Dissolution	78,321	0
 Total Change in Net Assets	(1,871,781)	(3,333,993)
Beginning Net Assets	3,585,509	6,919,502
Ending in Net Assets	\$1,713,728	\$3,585,509

Governmental Activities

Net assets of the District's governmental activities decreased by \$1,871,781 due to the continuing trend of expenditures exceeding available resources.

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.

ZANESVILLE CITY SCHOOL DISTRICT

**Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

Property taxes made up 28% of revenues for governmental activities for the District in fiscal year 2005. The District's reliance upon tax revenues is demonstrated by the following table:

Revenue Sources	2005	Percent of Total
General Grants	\$18,066,948	42.58%
Program Revenues	11,126,875	26.22%
General Tax Revenues	11,993,887	28.27%
General Other	1,243,118	2.93%
Total Revenue	<u>\$42,430,828</u>	<u>100.00%</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$3,664,374, which is less than last year's balance of \$25,921,593. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2005 and 2004.

	Fund Balance (Deficit) June 30, 2005	Fund Balance (Deficit) June 30, 2004	Increase (Decrease)
General	(\$3,510,501)	(\$1,621,546)	(\$1,888,955)
Building	\$6,063,582	25,240,153	(19,176,571)
Bond Retirement Fund	\$1,768,773	1,604,222	164,551
Other Governmental	(\$657,480)	698,764	(1,356,244)
Total	<u>\$3,664,374</u>	<u>\$25,921,593</u>	<u>(\$22,257,219)</u>

The decrease in the District's Building Fund, which accounts for District building projects, is the result of the District's progress in completing the construction of several new school buildings within the District. The District's Bond Retirement Fund is used to retire the debt of this building project through the receipt of tax monies.

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.

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$9,792,618	\$9,816,907	(\$24,289)
Tuition	1,295,109	1,146,056	149,053
Investment Earnings	63,317	4,315	59,002
Extracurricular Activities	118	341	(223)
Class Materials and Fees	28,518	43,531	(15,013)
Intermediate Sources	115,051	29,221	85,830
Intergovernmental-State	17,892,360	17,036,755	855,605
Intergovernmental-Federal	1,670	33,989	(32,319)
All Other Revenue	588,822	178,124	410,698
Total	<u>\$29,777,583</u>	<u>\$28,289,239</u>	<u>\$1,488,344</u>

General Fund revenues in 2005 increased approximately 5.26% compared to revenues in fiscal year 2004. The primary factors contributing to this increase included an increase in intergovernmental receipts from the state, other miscellaneous revenue, and open enrollment tuition receipts.

ZANESVILLE CITY SCHOOL DISTRICT

**Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

	Expenditures	Expenditures	(Decrease)
Instruction	\$20,169,668	\$20,363,616	(\$193,948)
Supporting Services:			
Pupils	1,510,150	1,437,954	72,196
Instructional Staff	1,026,529	1,129,314	(102,785)
Board of Education	192,538	188,303	4,235
Administration	2,737,599	2,946,794	(209,195)
Fiscal Services	623,019	595,863	27,156
Operation & Maintenance of Plant	3,465,451	3,240,415	225,036
Pupil Transportation	1,110,720	1,236,344	(125,624)
Central	663,628	699,172	(35,544)
Operation of Non-Instructional Services	2,675	3,996	(1,321)
Community Services	147,203	147,263	(60)
Extracurricular Activities	341,159	332,113	9,046
Capital Outlay	0	3,275	(3,275)
Total	\$31,990,339	\$32,324,422	(\$334,083)

The expenditures decreased by \$334,083 compared to the prior year mostly due to decreased fringe benefit 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 2005, the District amended its General Fund budget several times.

For the General Fund, budget basis revenue was \$30.6 million, exceeding budget estimates of \$30.5 million. The actual receipts were higher because of the receipt of a property tax advance. The General Fund did not have an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the District had \$34,400,926 net of accumulated depreciation invested in land, construction in progress, buildings and improvements, improvements other than buildings, and furniture, fixtures, equipments, and vehicles. The following table shows fiscal year 2004 and 2005 balances:

	Governmental Activities		Increase
	2005	2004	(Decrease)
Land	\$1,017,064	\$1,017,064	\$0
Construction in Progress	\$28,272,219	\$8,978,148	19,294,071
Buildings and Building Improvements	\$13,916,304	\$13,901,304	15,000
Improvements Other Than Buildings	\$1,355,597	\$1,343,627	11,970
Furniture, Fixtures, Equipment, and Vehicles	\$1,833,372	\$1,788,163	45,209
Less: Accumulated Depreciation	(\$11,993,630)	(\$11,725,676)	(267,954)
Total	\$34,400,926	\$15,302,630	\$19,098,296

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

ZANESVILLE CITY SCHOOL DISTRICT

Management's Discussion & Analysis For the Fiscal Year Ended June 30, 2005

Unaudited

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

Debt

At June 30, 2005, the District had \$34.2 million in bonds outstanding, \$524,172 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2005:

	2005	2004
Governmental Activities:		
General Obligation Bonds:		
Energy Conservation	\$0	\$93,000
School Improvement	34,249,369	34,705,217
Capital Leases Payable	0	1,078
Compensated Absences Payable	3,788,313	4,348,380
Totals	<u>\$38,037,682</u>	<u>\$39,147,675</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, 2005, 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 2005, the District received approximately 43% 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 reduction of the 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 2005. A cost savings of \$1.8 million resulted from the reduction of 33 positions since fiscal year 2004 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, consisted of the construction of two junior high schools and one elementary school and was completed in the fall of 2005. Phase two construction, which will begin in the near future, upon passage of a required maintenance levy, consists of the construction of one senior high school and three 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 at Zanesville City School District, 160 N Fourth St., Zanesville, Ohio 43701 or e-mail nye@zanesville.k12.oh.us.

Zanesville City School District, Ohio

Statement of Net Assets

June 30, 2005

	Primary Government Governmental Activities	Component Unit Zanesville Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$7,368,821	\$0
Investments	2,000,000	0
Taxes Receivable	10,828,123	0
Accounts Receivable	67,439	0
Intergovernmental Receivable	835,463	0
Interest Receivable	6,128	0
Prepaid Items	37,823	0
Inventory of Supplies at Cost	20,123	0
Cash and Cash Equivalents with Escrow Agents	413,214	0
Deferred Charges	268,530	0
Nondepreciable capital assets	29,289,283	0
Depreciable capital assets, net	5,111,643	0
<i>Total Assets</i>	<u>56,246,590</u>	<u>0</u>
Liabilities		
Accounts Payable	423,127	0
Contracts Payable	1,489,492	0
Accrued Wages and Benefits	5,454,161	0
Intergovernmental Payable	1,081,284	0
Deferred Revenue - Taxes	7,166,970	0
Retirement Incentive Payable	36,000	0
Vacation Benefits Payable	181,789	0
Matured Compensated Absences Payable	117,500	0
Retainage Payable	413,214	0
Accrued Interest Payable	131,643	0
Long Term Liabilities		
Due Within One Year	733,908	0
Due in More than One Year	37,303,774	0
<i>Total Liabilities</i>	<u>54,532,862</u>	<u>0</u>
Net Assets		
Invested in Capital Assets, net of related debt	6,849,779	0
Restricted for:		0
Capital Projects	60,654	0
Debt Service	1,576,230	0
Unrestricted	(6,772,935)	0
<i>Total Net Assets</i>	<u>\$1,713,728</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental	Unit
				Governmental	Zanesville	
				Activities	Digital	
					Academy	
Governmental Activities						
Instruction	\$25,113,995	\$1,514,673	\$4,500,221	\$	(\$19,099,101)	\$
Support Services:						
Pupils	1,780,236		276,989		(1,503,247)	
Instructional Staff	3,093,248		1,950,906		(1,142,342)	
Board of Education	192,538				(192,538)	
Administration	2,975,926		194,742		(2,781,184)	
Fiscal	678,522				(678,522)	
Operation and Maintenance of Plant	3,745,348		55,070	60,808	(3,629,470)	
Pupil Transportation	1,201,176		64,712	23,913	(1,112,551)	
Central	702,106		49,343		(652,763)	
Operation of Non-Instructional Services	2,056,037	508,903	1,305,116		(242,018)	
Community Services	687,519		449,052		(238,467)	
Extracurricular Activities	556,832	167,242	5,185		(384,405)	
Debt Service:						
Interest and Fiscal Charges	1,597,447				(1,597,447)	
Total Primary Government	<u>\$44,380,930</u>	<u>\$2,190,818</u>	<u>\$8,851,336</u>	<u>\$84,721</u>	(33,254,055)	
Component Unit						
Zanesville Digital Academy	<u>\$25,389</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>		(25,389)
General Revenues						
Property Taxes Levied for:						
General Purposes						
				9,890,528		
Debt Service						
				2,103,359		
Grants and Entitlements not Restricted						
				18,066,948	1,333	
Investment Earnings						
				483,168	1,074	
Miscellaneous						
				759,950		
Total General Revenues						
				<u>31,303,953</u>	<u>2,407</u>	
<i>Special Item - Assets Transferred to Primary Government Upon Dissolution</i>						
				<u>78,321</u>	<u>(78,321)</u>	
<i>Change in Net Assets</i>						
				(1,871,781)	(101,303)	
<i>Net Assets Beginning of Year</i>						
				<u>3,585,509</u>	<u>101,303</u>	
<i>Net Assets End of Year</i>						
				<u>\$1,713,728</u>	<u>\$0</u>	

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2005

	General	Building Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$0	\$5,502,216	\$1,050,611	\$815,994	\$7,368,821
Investments		2,000,000			2,000,000
Taxes Receivable	8,763,163		2,064,960		10,828,123
Accounts Receivable	10,831			56,608	67,439
Intergovernmental Receivable				835,463	835,463
Interest Receivable	6,128				6,128
Interfund Loan Receivable	3,002	89,531			92,533
Prepaid Items	19,830	13,861		4,132	37,823
Inventory Held for Resale				20,123	20,123
Restricted Assets:					
Cash and Cash Equivalents with Escrow Agents		413,214			413,214
Total Assets	\$8,802,954	\$8,018,822	\$3,115,571	\$1,732,320	\$21,669,667
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$205,822	\$52,534	\$	\$164,771	\$423,127
Retainage Payable		413,214			413,214
Contracts Payable		1,489,492			1,489,492
Accrued Wages and Benefits	4,174,039			1,280,122	5,454,161
Intergovernmental Payable	709,227			372,057	1,081,284
Interfund Loans Payable	83,165			9,368	92,533
Deferred Revenue - Taxes	7,015,410		1,346,798		8,362,208
Deferred Revenue	2,942			532,832	535,774
Retirement Incentive Payable	24,000			12,000	36,000
Matured Compensated Absences Payable	98,850			18,650	117,500
Total Liabilities	12,313,455	1,955,240	1,346,798	2,389,800	18,005,293
Fund Balances					
Reserved for Encumbrances	16,218	261,097		246,798	524,113
Reserved for Prepays	19,830	13,861		4,005	37,696
Reserved for Inventory				20,123	20,123
Reserved for Property Taxes	1,747,753		718,162		2,465,915
Reserved for Bus Purchase	36,106				36,106
Reserved for Debt Service			1,050,611		1,050,611
Undesignated, Unreserved in:					
Special Revenue Funds				(1,025,586)	(1,025,586)
Capital Projects Funds		5,788,624		97,180	5,885,804
General Fund (Deficit)	(5,330,408)				(5,330,408)
Total Fund Balances	(3,510,501)	6,063,582	1,768,773	(657,480)	3,664,374
Total Liabilities and Fund Equity	\$8,802,954	\$8,018,822	\$3,115,571	\$1,732,320	\$21,669,667

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Reconciliation of Total Governmental Fund Balances To
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances		\$3,664,374
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		34,400,926
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		1,731,012
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds Payable	(34,249,369)	
Deferred Charge	268,530	
Vacation Benefits Payable	(181,789)	
Compensated Absences Payable	(3,788,313)	
Accrued Interest Payable	<u>(131,643)</u>	
		<u>(38,082,584)</u>
Net Assets of Governmental Activities		<u><u>\$1,713,728</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2005

	General	Building	Bond Ret. Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$9,792,618	\$	\$2,082,614	\$0	\$11,875,232
Tuition	1,295,109			191,046	1,486,155
Investment Earnings	63,317	415,581		1,328	480,226
Food Services				508,903	508,903
Extracurricular Activities	118			167,124	167,242
Classroom Materials and Fees	28,518				28,518
Intermediate Sources	115,051		16,612	234,957	366,620
Intergovernmental - State	17,892,360		248,213	2,907,772	21,048,345
Intergovernmental - Federal	1,670			5,001,858	5,003,528
All Other Revenue	588,822			338,504	927,326
Total Revenue	29,777,583	415,581	2,347,439	9,351,492	41,892,095
Expenditures:					
Instruction	20,169,668			5,076,645	25,246,313
Support Services:					
Pupils	1,510,150			285,347	1,795,497
Instructional Staff	1,026,529			2,059,142	3,085,671
Board of Education	192,538				192,538
Administration	2,737,599			227,188	2,964,787
Fiscal	623,019		45,375		668,394
Operation and Maintenance of Plant	3,465,451			100,669	3,566,120
Pupil Transportation	1,110,720			64,023	1,174,743
Central	663,628			55,093	718,721
Operation of Non-Instructional Services	2,675			1,985,349	1,988,024
Community Services	147,203	82		534,484	681,769
Extracurricular Activities	341,159			153,795	494,954
Capital Outlay		19,330,821		164,075	19,494,896
Debt Service:					
Principal			548,000		548,000
Interest and Fiscal Charges			1,589,513		1,589,513
Total Expenditures	31,990,339	19,330,903	2,182,888	10,705,810	64,209,940
Excess (Deficiency) of Revenues Over Expenditures	(2,212,756)	(18,915,322)	164,551	(1,354,318)	(22,317,845)
Other Financing Sources and (Uses):					
Proceeds from the Sale of Capital Assets				2,900	2,900
Transfers In	261,249			6,658	267,907
Transfers Out	(6,658)	(261,249)			(267,907)
Total Other Financing Sources and (Uses)	254,591	(261,249)	0	9,558	2,900
Special Item: Assets Transferred to Primary Government Upon Dissolution	69,210				69,210
Net Change in Fund Balance	(1,888,955)	(19,176,571)	164,551	(1,344,760)	(22,245,735)
Fund Balance (Deficit) at Beginning of Year (Restated - Note 3)	(1,621,546)	25,240,153	1,604,222	698,764	25,921,593
Decrease in Inventory Reserve				(11,484)	(11,484)
Fund Balance (Deficit) at End of Year	(\$3,510,501)	\$6,063,582	\$1,768,773	(\$657,480)	\$3,664,374

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds		(\$22,245,735)
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation:		
Capital Outlay	19,420,453	
Depreciation Expense	<u>(322,157)</u>	19,098,296
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		535,833
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets		549,076
Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the Statement of Activities. The amortization of premiums, discounts, and issuance costs are reported on the Statement of Activities:		
Discount Amortization	(1,539)	
Premium Amortization	30,711	
Issuance Costs Amortization	(10,973)	
Accretion	(28,324)	
Accrued Interest Payable	<u>2,191</u>	(7,934)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Compensated Absences	391,956	
Vacation Benefits Payable	(181,789)	
Change in Inventory	<u>(11,484)</u>	<u>198,683</u>
Change in Net Assets of Governmental Activities		<u><u>(\$1,871,781)</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$10,115,237	\$10,115,237	\$10,566,782	\$451,545
Tuition	1,514,797	1,514,797	1,295,109	(219,688)
Investment Earnings	227,365	327,365	355,055	27,690
Extracurricular Activities	720	720	118	(602)
Classroom Materials and Fees	43,399	37,899	29,392	(8,507)
Intermediate Sources	29,221	119,221	115,051	(4,170)
Intergovernmental - State	17,473,481	18,083,481	17,949,612	(133,869)
Intergovernmental - Federal	1,500	1,500	1,911	411
All Other Revenue	115,491	315,491	311,899	(3,592)
Total Revenues	29,521,211	30,515,711	30,624,929	109,218
Expenditures				
Current:				
Instruction	19,548,613	19,722,172	20,167,108	(444,936)
Support Services:				
Pupil	1,378,608	1,386,181	1,399,554	(13,373)
Instructional Staff	764,003	1,090,095	1,039,093	51,002
Board of Education	145,742	145,742	167,879	(22,137)
Administration	2,846,222	2,875,603	2,728,965	146,638
Fiscal	613,380	613,380	631,631	(18,251)
Operation and Maintenance of Plant	3,456,903	3,460,867	3,337,625	123,242
Pupil Transportation	985,167	1,136,032	1,096,881	39,151
Central	717,233	740,890	656,342	84,548
Operation of Non-Instructional Services	(2,000)	3,738	2,675	1,063
Community Services	147,159	148,048	148,161	(113)
Extracurricular Activities	337,087	337,807	336,186	1,621
Total Expenditures	30,938,117	31,660,555	31,712,100	(51,545)
Excess of Revenues Over (Under) Expenditures	(1,416,906)	(1,144,844)	(1,087,171)	57,673
Other Financing Sources (Uses)				
Transfers Out		(16,000)	(6,658)	9,342
Advances In			96,333	96,333
Refund of Prior Year Expenditures	699,407	699,407	507,048	(192,359)
Total Other Financing Sources (Uses)	699,407	683,407	596,723	(86,684)
Net Change in Fund Balance	(717,499)	(461,437)	(490,448)	(29,011)
Fund Balance Beginning of Year	309,863	309,863	309,863	0
Prior Year Encumbrances Appropriated	152,804	152,804	152,804	0
Fund Balance End of Year	(\$254,832)	\$1,230	(\$27,781)	(\$29,011)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Agency Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,922	\$34,176
<i>Total Assets</i>	11,922	34,176
Liabilities		
Due to Others		1,448
Due to Students		32,728
<i>Total Liabilities</i>		\$34,176
Net Assets		
Restricted for Unclaimed Monies	4,648	
Unrestricted	7,274	
<i>Total Net Assets</i>	\$11,922	

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions	
Contributions:	
Dues and Fees	\$3,634
Private Donations	4,837
Total Contributions	8,471
<i>Total Additions</i>	8,471
Deductions	
Administrative Expenses	5,596
<i>Total Deductions</i>	5,596
 <i>Change in Net Assets</i>	 2,875
 <i>Net Assets (Deficit) Beginning of Year</i>	 9,047
 <i>Net Assets (Deficit) End of Year</i>	 \$11,922

See accompanying notes to the basic financial statements

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ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 198 classified and approximately 398 certified teaching personnel and administrative employees providing education to 4,168 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*," 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.

Discretely 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. On August 18, 2004, the ZDA discontinued operations and filed for dissolution with the Ohio Secretary of State on October 14, 2004. The ZDA distributed its remaining assets to the primary government, as outlined in the articles of incorporation on June 23, 2005. The ZDA was a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The ZDA was governed by a seven member board. The board was composed of five members from the Zanesville City School District and two members from the public. The first public member was to be a public educator or other public official representing a governmental entity that desired to further the establishment and operation of ZDA. The second public member was to be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA was to be replaced by a person who represents the interest of parents and students served by the conversion school. The District was able to impose its will on the ZDA. The District could 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 cause. The Board of Directors were responsible for carrying out the provisions of the contract which included, but were not limited to, helping to 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 served. 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 City School District, 160 North Fourth Street, Zanesville, Ohio 43701.

The District participates in two jointly governed organizations and one insurance purchasing pool. These organizations are the Tri-Rivers Educational Computer Association, Mid-East Career and Technology Centers, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, revenue 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.

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

Bond Retirement Fund - This fund accounts for the receipt of property tax monies to repay bonded debt of the District.

Fiduciary Funds

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

C. Basis of Presentation- Financial Statements

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

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

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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.

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.

Government-wide financial statements are prepared using the accrual basis of accounting. 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, 2005, and which are not intended to finance fiscal year 2005 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, 2005 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, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the 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 for 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 the general and major special revenue funds, if applicable, are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

Normally by January 15th, 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 would then be submitted to the County Auditor for approval. However, the Muskingum County Budget Commission has waived the requirement that the District file an annual tax budget. The District is still required to file information as required by the County Auditor.

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 amounts reported as the original budgeted amounts on the budgetary statement reflect the amounts in the certificate governing the District's original permanent appropriations. The amounts reported as the final budgeted amounts reflect the amounts in the final amended official certificate of estimate resources issued during fiscal year 2005.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-General Fund are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

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

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 re-appropriated.

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).

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ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
GAAP Basis	(\$1,888,955)
Net Adjustment for Revenue Accruals	1,023,935
Net Adjustment for Expenditure Accruals	286,694
Advances In	96,333
FY 2004 Prepaids for FY 2005	39,156
FY 2005 Prepaids for FY 2006	(19,830)
Encumbrances Outstanding at June 30, 2005	<u>(27,781)</u>
Budget Basis	<u><u>(\$490,448)</u></u>

F. Cash and Cash Equivalents

During fiscal year 2005, cash and cash equivalents included amounts in demand deposits, money market mutual funds, a repurchase agreement and the State Treasury Asset Reserve (STAROhio). STAROhio 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 2005, investments were limited to certificates of deposit, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Notes and Federal National Mortgage Association Notes.

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 invested funds in the State Treasury Asset Reserve of Ohio during 2005. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

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 cost of inventory items is recorded as expenditures in the governmental funds 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.

2. Depreciation

All capital assets are depreciated, excluding land and construction in progress. During fiscal year 2005, the District adopted a revised capital asset policy which changed the estimated useful lives of assets effective July 1, 2004. Prior to July 1, 2004, the estimated useful lives of assets were as follows: Buildings and Improvements (15-40 years), Machinery and Equipment (5-20 years), and Vehicles (7years). Effective July 1, 2004, the District's estimated useful lives are as follows: Buildings and Building Improvements (5-50 years), Improvements Other than Buildings (10-45 years), and Furniture, Fixtures, Equipment and Vehicles (5-20 years).

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, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

All compensated absences liabilities are reported on the government-wide financial statements. The District's liabilities for compensated absences consist of vacation benefits payable, long-term liabilities due in one year, long-term liabilities due in more than one year, matured compensated absences payable, and retirement incentive payable.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation is attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Classified employees with 6 months of service receive one week of vacation in the year following employment. Employees with one year but less than five years of service receive two weeks of vacation in the following year. Employees with 5 years of service but less than 10 years receive 3 weeks of vacation in the following year. Once employees have 10 years of service they receive 4 weeks of vacation benefits in each of the following years. Classified employees subject to the District's collective bargaining agreement receive their vacation time as of June 1st each year whereas classified exempt employees receive their vacation benefits as of January 1st of each year. Vacation leave may not be carried forward by these employees from one year to the next unless special approval is given by the Superintendent.

The one exception to the above is certified administrative personnel whom receive 20 days of vacation leave as of January 1st (except for the Superintendent whom receives 25 days) in the same year in which the services are rendered (except for the Treasurer whom accrues vacation leave each month). The Superintendent, Assistant Superintendent, and Treasurer are allowed to maintain maximum leave balances of 45 days, 40 days, and 30 days respectively.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end. The District records a liability for accumulated unused sick leave for employees after five years of current service with the District. Employees may earn one and one fourth days of sick leave per month up to a maximum of 268 days, depending on their job classification. Upon retirement, employees will receive one-fourth of the accumulated sick leave up to a maximum of between 64 and 67 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.

The District's liability for the portion of sick leave and benefits which have an average maturity greater than one year are recorded as "long term liabilities" and are reported in two components, the amount due within one year and the amount due in more than one year. The District has estimated that \$209,736 of the long term liability to be due within one year based upon prior year actual results and current year estimates.

The only compensated absence liabilities recognized on both the government-wide financial statements and the governmental fund financial statements, are those liabilities and expenditures that represent payments which come due (mature) upon the occurrence of employee resignations and retirements prior to June 30th. Amounts due to employees based upon their resignation or retirement related to sick leave and vacation benefits are reported as "matured compensated absences payable" on the government-wide financial statements and on the governmental fund financial statements in the fund(s) from which these payments will be made.

In addition, certified bargaining unit employees with 30 years of retirement credit can be eligible for a one-time severance bonus of \$12,000. Retirement under this plan must be completed by August 1st following the school year in which each individual bargaining unit member becomes eligible.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees whom wish to participate in this plan must notify the Superintendent in writing by March 1st of the year. Amounts due to employees based upon their participation in this plan are reported as "retirement incentive payable" on the government-wide and governmental fund financial statements.

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 of their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Pensions

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

N. Interfund Activity

Exchange transactions between funds are reported as revenue 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 Building Fund represent cash and cash equivalents restricted for payments held in a separate bank account and payable to contractors.

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, 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.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

The fund deficits at June 30, 2005 of \$3,510,501 in the General Fund, \$49,397 in the Food Service Fund, \$9,728 in the Latchkey Fund, \$25,583 in the Rotary Fund, \$318,319 in the Disadvantaged Pupil Impact Aid Fund, \$7,089 in the Summer School Fund, \$13,481 in the Miscellaneous State Grant Fund, \$6,160 in the Title VI-B Fund, \$287,002 in the Title I Fund, and \$66,567 in the Miscellaneous Federal Grant 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.

In addition, fund cash overdrafts existed under the budgetary basis in the General Fund (\$86,290), the Miscellaneous State Grant Fund (\$2,925), and the Miscellaneous Federal Grant Fund (\$3,442) as of June 30, 2005. In addition, the General Fund, Latchkey Fund, Student Intervention Fund, Miscellaneous State Grant Fund, Title VI-B Fund, Title V Fund, and Miscellaneous Federal Grant Fund had individual fund cash overdrafts during fiscal year 2005 which is contrary to ORC 5705.10.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For the fiscal year ended June 30, 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/ Expenses and Liabilities by Cost Sharing Employers."

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 4, "Cash, Cash Equivalents, and Investments," for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation affected the fund balances of governmental funds, but had no effect on net assets.

	General	Building	Bond Retirement	Other Governmental	Total Governmental Funds
Fund Balances, June 30, 2004	(\$1,436,814)	\$25,240,153	\$1,604,222	\$837,051	\$26,244,612
GTB 2004-02 Restatement	(184,732)			(138,287)	(323,019)
Restated Fund					
Balances, July 1, 2004	<u>(\$1,621,546)</u>	<u>\$25,240,153</u>	<u>\$1,604,222</u>	<u>\$698,764</u>	<u>\$25,921,593</u>

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 held separately 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 as certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to, passbook accounts.

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 or other Ohio local governments;
- Commercial paper and bankers acceptance if training requirements have been met;
- 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 describe in this division are made only through eligible institutions; and,
- The State Treasury Asset Reserve of Ohio (STAROhio).

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

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. 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. 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 equally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. The District has no deposit policy for custodial risk beyond the requirements of State statute.

At year end, the carrying amount of the District's deposits was \$6,315,610 and the bank balance was \$6,851,819. Federal depository insurance covered \$1,300,000 of the bank balance and \$5,551,819 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$5,551,819</u>
Total Balance	<u><u>\$5,551,819</u></u>

B. Investments

The District's investments at June 30, 2005 were as follows:

Investment	Fair Value	Credit Rating	Years to maturity		
			Less than 1	1 thru 3	3 thru 5
US Treasury Money Market Fund	\$413,214	AAAm*	\$413,214	0	0
Repurchase Agreement	2,322,045	AAA*	2,322,045		
STAROhio	777,264	AAAm*	777,264		
Total Investments	<u>\$3,512,523</u>		<u>\$3,512,523</u>	<u>\$0</u>	<u>\$0</u>

* Standard & Poor's

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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

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

Concentration of Credit Risk- The District places no limit on the amount the District may invest in one issuer. As of June 30, 2005, the District's investments were invested as follows: 66.1% in a repurchase agreement, 22.1% in STAROhio, and 11.8% in a money market mutual fund.

*Credit Risk-*Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices based upon credit risk.

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 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, 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.

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 semiannually, the first payment is due April 30; with the remainder payable by September 20.

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ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 5 - PROPERTY TAXES (Continued)

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 2005, upon which the 2004 levies were based are as follows:

	2004 Second half Collections	2005 First Half Collections
Agricultural/Residential and Other Real Estate	\$325,708,850	\$328,287,760
Public Utility Personal	17,198,540	17,578,560
Tangible Personal Property	53,697,016	44,674,637
Total Assessed Value	\$396,604,406	\$390,540,957
 Tax rate per \$1,000 of assessed valuation	\$49.33	\$49.33

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, interest, accounts receivable and intergovernmental receivables.

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2005:

Fund	Transfer In	Transfer Out
General Fund	\$261,249	\$6,658
Building Fund	0	261,249
 Nonmajor Governmental Funds:		
Public School Support Fund	39	0
District Managed Student Activity Fund	2,395	0
Title VI Fund	4,224	0
Total Nonmajor Governmental Funds	6,658	0
Totals	\$267,907	\$267,907

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 aggregate 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, 2005**

NOTE 8 - INTERFUND BALANCES

Individual interfund receivable and payable balances at June 30, 2005, are as follows:

FUND	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$3,002	\$83,165
Building Fund	89,531	0
Nonmajor Governmental Funds:		
Rotary Fund	0	3,000
Miscellaneous State Grants Fund	0	2,925
Miscellaneous Federal Grants Fund	0	3,443
Total Nonmajor Governmental Funds	<u>0</u>	<u>9,368</u>
Totals	<u>\$92,533</u>	<u>\$92,533</u>

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

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Nondepreciable Capital Assets				
Land	\$1,017,064	\$0	\$0	\$1,017,064
Construction in Progress	8,978,148	19,294,071	0	28,272,219
Total Non-Depreciable Capital Assets	<u>9,995,212</u>	<u>19,294,071</u>	<u>0</u>	<u>29,289,283</u>
Depreciable Capital Assets				
Buildings and Building Improvements	13,901,304	15,000	0	13,916,304
Improvements Other Than Buildings	1,343,627	11,970	0	1,355,597
Furniture, Fixtures, Equipment and Vehicles	1,788,163	99,412	(54,203)	1,833,372
Total at Estimated Historical Cost	<u>17,033,094</u>	<u>126,382</u>	<u>(54,203)</u>	<u>17,105,273</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(9,468,366)	(153,277)	0	(9,621,643)
Improvements Other Than Buildings	(1,085,094)	(36,418)	0	(1,121,512)
Furniture, Fixtures, Equipment and Vehicles	(1,172,216)	(132,462)	54,203	(1,250,475)
Total Accumulated Depreciation	<u>(11,725,676)</u>	<u>(322,157) *</u>	<u>54,203</u>	<u>(11,993,630)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>5,307,418</u>	<u>(195,775)</u>	<u>0</u>	<u>5,111,643</u>
Governmental Activities Capital Assets, Net	<u>\$15,302,630</u>	<u>\$19,098,296</u>	<u>\$0</u>	<u>\$34,400,926</u>

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 9 – CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction	\$122,272
Support Services:	
Pupil	9,690
Instructional Staff	14,175
Administration	15,768
Fiscal Services	1,093
Operation of Maintenance and Plant	17,904
Pupil Transportation	95,253
Central	117
Operation of Non-instructional Services	18,124
Community Services	3,674
Extracurricular Activities	<u>24,087</u>
Total Depreciation Expense	<u><u>\$322,157</u></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 publicly available, 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 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. A copy of the report is also available on SERS' website, www.ohsers.org, under Forms and Publications.

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 the State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. As of June 30, 2005, 10.57% was allocated to fund the pension benefit and 3.43% to fund the health care benefit. The District's contributions to the SERS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$707,328, \$734,688, and \$749,943, 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

The portion of the 2005 employer contribution rate (latest information available) that was used to fund health care for the year 2005 was 3.43%. 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 2005, the minimum pay has been established as \$27,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$252,985.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 58,123. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. As of June 30, 2005, the value of the healthcare fund was \$267.5 million, which is about 168% of next year's projected healthcare costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of annual net claim costs.

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 E. Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 contributions requirements of plan member 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, 2005, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to STRS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$2,246,592, \$2,708,040, and \$2,526,615, respectively, which were equal to the required contributions for each year.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

STRS provides post-employment health care benefits to retirees who participated in the DB 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. All benefit recipients pay a portion of the health care cost in the form of monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, the board allocated employer contributions were 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$175,471 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

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, 2005 is as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1994 Energy Conservation	5.75%	\$93,000	\$0	(\$93,000)	\$0
2001 School Facilities Current Interest Term Bonds	4.75-5.38%	25,900,000	0	(455,000)	25,445,000
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		(39,188)	0	1,539	(37,649)
2001 School Facilities Capital Appreciation Bonds Premium		290,869	0	(30,711)	260,158
2001 School Facilities Capital Appreciation Bond Accumulated Accretion		38,955	28,324	0	67,279
Total Bonds		<u>34,798,217</u>	<u>28,324</u>	<u>(577,172)</u>	<u>34,249,369</u>
Capital Leases Payable		1,078	0	(1,078)	0
Compensated Absences		<u>4,348,380</u>	<u>891,457</u>	<u>(1,451,524)</u>	<u>3,788,313</u>
Total Long Term Obligations		<u>\$39,147,675</u>	<u>\$919,781</u>	<u>(\$2,029,774)</u>	<u>\$38,037,682</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 will be retired from the debt service fund. As of June 30, 2005, the School District had \$8,004,960 in unspent bond proceeds in the Building Capital Projects Fund.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

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

The overall debt margin of the District as of June 30, 2005 was \$2,171,795, with an un-voted margin of \$390,541.

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 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2014	\$980,000

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

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

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

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:

Year	Principal Amount to be Redeemed
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.

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 be Redeemed
2027	\$2,515,000
2028	2,685,000

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

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

The capital appreciation bonds mature on December 1, 2013. These bonds were purchased at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$945,000. For fiscal year 2005, \$28,324 was accreted for a total bond liability of \$306,806.

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, 2005, follows:

Years	General Obligation Bonds		
	Principal	Interest	Total
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	695,000	1,500,611	2,195,611
2011-2015	3,654,581	7,803,619	11,458,200
2016-2020	6,330,000	5,934,528	12,264,528
2021-2025	9,090,000	4,080,375	13,170,375
2026-2030	11,925,000	1,502,454	13,427,454
Totals	\$33,959,581	\$27,024,614	\$60,984,195

NOTE 12 – STATUTORY RESERVES

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

Senate Bill 345, effective April 10, 2001, eliminated future set-aside requirements for budget stabilization, reduced requirements related to the current set-asides, and placed restrictions on current budget stabilization money relating to the workers' compensation refunds. During fiscal year 2004 the School District enacted a resolution transferring the remaining portion of the budget stabilization reserve to the General Fund in order to offset a General Fund budget deficit.

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

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 12 – STATUTORY RESERVES (Continued)

	Textbooks	Capital Improvements
Set-aside reserve (cash) balance as of June 30, 2004	\$0	\$0
Carry over from prior year	(594,362)	(3,438,769)
Current year set-aside requirement	614,072	614,072
Current year offsets	0	(2,265,161)
Qualifying disbursements	(415,052)	(349,958)
Total	<u>(\$395,342)</u>	<u>(\$5,439,816)</u>
Set-aside balance carried forward to future fiscal years	(\$395,342)	(\$5,439,816)
Set-aside reserve (cash) balance as of June 30, 2005	\$0	\$0

The School District had qualifying disbursements and offsets during previous fiscal years that reduced the set-aside amount below zero for textbooks and capital improvements. This extra amount may be used to reduce the set-aside requirement of future years for textbooks. The excess monies from transfers from the General Fund to the Permanent Improvement Capital Projects Fund and the proceeds of a tax levy to retire debt related capital improvements in the current and previous fiscal years may be used to reduce the capital set-aside in future fiscal years.

NOTE 13 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

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, 2005. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

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.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 14 - 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 2005 the District contracted with several different insurance providers for insurance coverage, as follows:

Insurance Provider	Coverage	Limit of Insurance	Deductible
Utica National Insurance Group	Building and Personal Property Blanket	\$80,515,766	\$5,000
Utica National Insurance Group	Commercial General Liability:		
	General Aggregate Limit	\$2,000,000	
	Completed Operations Aggregate Limit	\$2,000,000	
	Personal and Advertising Injury Limit	\$1,000,000	
	Each Occurrence Limit	\$1,000,000	
	Damage to Premises Rented Limit	\$100,000	
	Medical Expense Limit (Any One Person)	\$10,000	
Utica National Insurance Group	Commercial Inland Marine Coverage	\$1,415,000	\$1,000
Utica National Insurance Group	Commercial Auto Coverage:		
	Liability	\$1,000,000	
	Auto Medical Payments	\$1,000	
	Uninsured Motorists	\$50,000	
	Underinsured Motorists	\$50,000	
	Comprehensive	Cash Value	\$1,000
	Collision	Cash Value	\$1,000
Utica National Insurance Group	Commercial Crime Coverage:		
	Inside the Premises - Per occurrence	\$25,000	
	Outside the Premises - Per messenger	\$25,000	
	Forgery or Alteration - Per occurrence	\$100,000	
	Employee Dishonesty - Per employee	\$100,000	
Utica National Insurance Group	Commercial Umbrella Liability:		
	General Aggregate Limit	\$3,000,000	
	Completed Operations Aggregate Limit	\$3,000,000	
	Each Incident Limit	\$3,000,000	
	Retained Limits-Each Incident	\$10,000	
Utica National Insurance Group	Commercial Property Coverage (Auxiliary Svcs):		
	Building and Personal Property Blanket	\$692,673	\$1,000
State Auto Insurance Company	Commercial Inland Marine Coverage	\$5,590	\$250
Cincinnati Insurance Company	Public Official's Bond - Treasurer	\$50,000	
Cincinnati Insurance Company	Public Official's Bond - Superintendent	\$20,000	
Cincinnati Insurance Company	Public Official's Bond - Board President	\$20,000	

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

For fiscal year 2005, the District participated in the Ohio School Board Association Workers' Compensation Group Rating Plan (GRP), an 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.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 14 - RISK MANAGEMENT (Continued)

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 15 - RELATED PARTY TRANSACTIONS

The Zanesville Digital Academy (Component Unit) ceased educational operations effective August 18, 2004 and filed a Certificate of Dissolution on October 14, 2004 with the Ohio Secretary of State. On June 23, 2005 the Academy transferred its remaining assets of \$69,210 in cash and cash equivalents and \$9,111 in capital assets, net of accumulated depreciation, to the District in accordance with the articles of incorporation. This transfer of assets to Zanesville City School District is reflected on the financial statements as "Assets to Primary Government upon Dissolution."

NOTE 16 - 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 2005, the District paid \$153,704 for services with TRECA.

B. Mid-East Career and Technology Centers

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 2005, 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 43701

NOTE 17 - INSURANCE PURCHASING POOL

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.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 18 – CONTRACTUAL OBLIGATIONS

As of June 30, 2005, the School District had contractual purchase commitments for several projects. The amount for each contractor is as follows:

Contractor	Fund	Purchase Commitments	Amounts Paid as of 06/30/2005	Amounts Remaining on Contracts
Blue Avenue North Middle School:				
Layton Excavating	Building	\$1,590,112	\$1,305,582	\$284,530
Paul Construction	Building	2,779,909	2,642,448	137,461
Kenny Huston	Building	1,230,048	1,213,960	16,088
CinFab	Building	434,977	424,049	10,928
Gutridge	Building	101,498	95,152	6,346
Howard Sheet Metal	Building	1,116,082	1,065,036	51,046
Accurate Electric	Building	862,654	838,483	24,171
Farnham Equipment	Building	163,632	161,247	2,385
BrySCO Food Service	Building	135,069	131,445	3,624
Johnson Controls	Building	93,260	90,709	2,551
BSH, LLC.	Building	54,700	51,965	2,735
Pine Street Middle School:				
Robertson Construction	Building	3,470,417	3,148,078	322,339
Kenny Huston	Building	1,493,424	1,479,971	13,453
CinFab	Building	491,641	481,842	9,799
Gutridge	Building	101,398	93,954	7,444
Howards Sheet Metal	Building	1,113,933	1,069,101	44,832
Accurate Electric	Building	795,756	763,089	32,667
Farnham Equipment	Building	162,595	160,569	2,026
BrySCO Food Service	Building	137,148	135,304	1,844
Johnson Controls	Building	94,990	92,439	2,551
BSH, LLC	Building	60,700	57,665	3,035
The Invironmentalists	Building	81,085	77,838	3,247
East Elementary School:				
Luburgh	Building	994,441	931,295	63,146
Altman	Building	2,191,976	1,868,075	323,901
International Masonry	Building	1,073,815	1,042,584	31,231
Professional Plumbing	Building	315,159	290,930	24,229
Gutridge	Building	94,225	81,953	12,272
Howards Sheet Metal	Building	1,159,000	955,266	203,734
City Electric	Building	664,229	566,748	97,481
Stonecreek	Building	146,250	132,535	13,715
Tom Sexton & Associates	Building	113,328	0	113,328
Continental Educational Env.	Building	51,441	0	51,441
Service Supply	Building	47,800	0	47,800
Johnson Controls	Building	70,858	37,549	33,309
BrySCO Food Service	Building	136,853	102,353	34,500
BSH, LLC	Building	51,600	49,020	2,580
Multiple Project Contracts:				
SASM Architects Ltd.	Building	1,727,741	1,505,489	222,252
Quandel Group	Building	1,555,866	1,511,000	44,866
Jobs and Henderson	Building	272,690	270,444	2,246
Total		\$27,232,300	\$24,925,167	\$2,307,133

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 19 – FISCAL CAUTION

On March 2, 2006, the Zanesville City School District was placed in fiscal caution by the Ohio Department of Education and was required to submit a fiscal caution proposal by May 2, 2006 to address the projected deficit. The District's plan was eventually accepted. The District also placed a 5.9 levy on the May ballot. In addition, the District approved reductions in staff through reduction in force, non-renewals, and attrition. The health insurance plan cost has also been reduced through the negotiation process. The May levy did not pass and it is expected that the District will place the levy on the ballot again in the near future.

NOTE 20 – ZANESVILLE DIGITAL ACADEMY

A. Description of the School

The Zanesville Digital Academy (ZDA) was a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. ZDA was an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. ZDA's mission was to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that would prepare students to become lifelong learners and intelligent decision makers. The students may have included, but were not limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who needed an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Zanesville School District, the sponsor school district, that desired a specific course not currently offered but was available through online instruction.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on June 25, 2002. The Academy was approved for operation under a contract between the Zanesville City School District (the "Sponsor") commencing July 25, 2002. The Academy began accepting students in February of 2004.

The Academy operated under the direction of a five-member Board of Directors which consisted of the Zanesville City School District Superintendent, Assistant Superintendent, Director of Instructional Services, Director of Personnel, and Director of Technology, and two board members who were not to be officers or employees of the Zanesville City School District, but were public educators or officials, one of which was appointed by TRECA. Due to the amount of influence the Zanesville City School District had over ZDA's Board, ZDA is a component unit of the District. The Board of Directors was responsible for carrying out the provisions of the contract which included, but were not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Zanesville City School District was the Chief Financial Officer.

The Board of Directors entered into an agreement with Tri-Rivers Educational Computer Association ("TRECA") to provide the planning, design, implementation, instructional, administrative, and technical services (See Note F).

As discussed in Note 20I, ZDA ceased educational operations effective August 18, 2004 and filed a Certificate of Dissolution on October 14, 2004 with the Ohio Secretary of State.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 20 – ZANESVILLE DIGITAL ACADEMY (Continued)

B. Summary of Significant Accounting Policies

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

Basis of Presentation

The ZDA's basic financial statements consist of a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

ZDA used a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Measurement Focus

The enterprise activity was accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of ZDA would be included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how ZDA finances meet its cash flow needs.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. ZDA's financial statements were prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which ZDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which ZDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to ZDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Cash and Cash Equivalents

Cash received by ZDA was reflected as "Cash and Cash Equivalents" on the statement of net assets for previous years. However, ZDA had no investments during the fiscal period ended June 23, 2005 and had no remaining "Cash and Cash Equivalents."

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 20 – ZANESVILLE DIGITAL ACADEMY (Continued)

Capital Assets and Depreciation

All capital assets were capitalized at cost and updated for additions and reductions during the year. The Academy maintained a capitalization threshold of \$5,000. The Academy did not have any infrastructure. All capital assets were depreciated using the straight-line method over a five year useful life. In accordance with the ZDA contract with Zanesville City Schools which states that, “upon dissolution of the Digital Academy, any assets remaining shall be conveyed to Zanesville City Schools,” and as discussed in Note 20I, all capital assets were transferred to the Zanesville City Schools on June 23, 2005.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets were reported as restricted when there were limitations imposed on their use either through the enabling legislation adopted by ZDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. ZDA applied restricted resources first when an expense was incurred for purposes for which both restricted and unrestricted net assets were available. ZDA had no restricted assets as of June 23, 2005.

Operating Revenues and Expenses

Operating revenues were those revenues that were generated directly from the primary activity of ZDA. Operating expenses were necessary costs incurred to provide the services that were the primary activity of ZDA. All revenues and expenses not meeting this definition were reported as non-operating.

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.

C. Change in Accounting Principle

For the fiscal period ended June 23, 2005, the ZDA has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Technical Bulletin No. 2004-02, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers.”

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 4 “Deposits” for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditures/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation had no effect on net assets.

D. Deposits

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”.

At June 23, 2005, prior to the distribution of assets to Zanesville City School District, the carrying amount and bank balance of ZDA’s deposits was \$69,210. All of the bank balance was covered by federal depository insurance. As discussed in Note 20I, all cash was paid to the sponsor on June 23, 2005. There were no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

ZANESVILLE CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

E. Capital Assets

A summary of the capital assets of ZDA as of June 23, 2005 follows:

	Balance		
	June 30, 2004	Additions	Reductions
Equipment	\$15,187	\$0	(\$15,187)
Less Accumulated Depreciation	(3,038)	(3,038)	6,076
Capital Assets, Net	<u>\$12,149</u>	<u>(\$3,038)</u>	<u>(\$9,111)</u>

F. Service Agreement

ZDA entered into a two year contract on February 21, 2003, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement ZDA's educational plan and ZDA's assessment and accountability plan.
- All personnel providing services to ZDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to ZDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation. ZDA shall be responsible for recovering and returning to TRECA any such equipment provided to students by TRECA and not promptly returned to TRECA by a student upon graduation, withdrawal, or expulsion. If ZDA is unable to recover such equipment or if the equipment is recovered in other than working condition then ZDA shall reimburse TRECA for the costs of such equipment in the amount of \$1,500 per student.
- ZDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of ZDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- ZDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 students enrolled in ZDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the fiscal period, ZDA paid \$15,500 under the terms of this agreement. ZDA has paid all amounts required as of June 23, 2005. To obtain TRECA's audited June 30, 2005 financial statements, please contact Scott Armstrong, Treasurer, at scott@treca.org.

G. Risk Management

ZDA is exposed to various risks of loss related to torts, errors and omissions, and natural disasters. During the period ended June 23, 2005, the Treasurer was covered by a public official's bond.

ZANESVILLE CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 20 – ZANESVILLE DIGITAL ACADEMY (Continued)

H. Purchased Services

For the period July 1, 2004 through June 23, 2005, purchased service expenses of the ZDA were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$236
Audit Services	2,813
Legal Services	<u>3,802</u>
Total	<u>\$6,851</u>

I. 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 of ZDA required that upon dissolution that any assets remaining shall be conveyed to Zanesville City School District to be used exclusively for public purposes. On June 23, 2005, ZDA transferred its remaining assets of \$69,210 in cash and cash equivalents and \$9,111 in capital assets, net of accumulated depreciation, to the District in accordance with the articles of incorporation. This transfer of assets to Zanesville City School District is reflected on the financial statements as "Assets to Primary Government upon Dissolution."

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**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A	\$	\$ 129,400	\$	\$ 129,400
School Breakfast Program	10.553	045179-05PU-2004	77,956		77,956	
	10.553	045179-05PU-2005	175,680		175,680	
Total School Breakfast Program			253,636	0	253,636	0
National School Lunch Program	10.555	045179-LLP1-2004	1,513		1,513	
	10.555	045179-LLP1-2005	10,536		10,536	
	10.555	045179-LLP4-2004	231,497		231,497	
	10.555	045179-LLP4-2005	592,631		592,631	
Total National School Lunch Program			836,177	0	836,177	0
Child and Adult Care Food Program	10.558	045179-CCMO-2004	439		439	
	10.558	045179-CCMO-2005	1,472		1,472	
Total Child and Adult Care Food Program			1,911	0	1,911	0
Total United States Department of Agriculture - Nutrition Cluster			1,091,724	129,400	1,091,724	129,400
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	045179-C1S1-2004	62,543		308,859	
	84.010	045179-C1S1-2005	1,518,044		1,484,205	
	84.010	045179-C1SD-2004	35,495			
	84.010	045179-C1SD-2005	49,715		46,573	
	84.010	048884-C1SK-2005	83,635		46,669	
Total Title I Grants to Local Educational Agencies			1,749,432	0	1,886,306	0
Special Education Grants to States	84.027	045179-6BSF-2004	63,024		83,708	
	84.027	045179-6BSF-2005	1,141,661		1,082,276	
Total Special Education Grants to States			1,204,685	0	1,165,984	0
Safe and Drug-Free Schools and Communities: State	84.186	045179-DRS1-2004			3,407	
	84.186	045179-DRS1-2005	40,220		40,220	
Total Safe and Drug-Free Schools and Communities: State			40,220	0	43,627	0
Even Start: State Educational Agencies	84.213	045179-EVS1-2004	58,317		30,401	
	84.213	045179-EVS1-2005	208,679		183,682	
Total Even Start: State Educational Agencies			266,996	0	214,083	0
Twenty-First Century Community Learning Centers	84.287	045179-T1S1-2005	180,000		176,395	
State Grants for Innovative Programs	84.298	045179-C2S1-2004	2,905		5,386	
	84.298	045179-C2S1-2005	33,102		32,583	
Total State Grants for Innovative Programs			36,007	0	37,969	0
Education Technology State Grants	84.318	045179-TJS1-2004	(2,149)			
	84.318	045179-TJS1-2005	28,860		37,051	
Total Education Technology State Grants			26,711	0	37,051	0
Comprehensive School Reform Demonstration	84.332	045179-RFCC-2004	10,170		557	
	84.332	045179-RFCC-2005	15,328		15,238	
Total Comprehensive School Reform Demonstration			25,498	0	15,795	0

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
Reading First State Grants	84.357	045179-RSS1-2004	9,951		31,344	
	84.357	045179-RSS1-2005	207,791		206,647	
Total Reading First State Grants			217,742	0	237,991	0
Improving Teacher Quality	84.367	045179-TRS1-2004	71,962		101,277	
	84.367	045179-TRS1-2005	406,535		385,718	
Total Improving Teacher Quality			478,497	0	486,995	0
<i>Passed Through Ohio Department of Education and Ohio School Facilities Commission:</i>						
School Renovation Grants	84.352A	838	(1,933)			
	84.352A	826			999	
Total School Renovation, IDEA, and Technology Program			(1,933)	0	999	0
Total United States Department of Education			4,223,855	0	4,303,195	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	93.767	N/A	4,908		4,908	
Medical Assistance Program	93.778	N/A	125,439		125,439	
Total United States Department of Health and Human Services			130,347	0	130,347	0
Total Federal Awards Receipts and Expenditures			\$ 5,445,926	\$ 129,400	\$ 5,525,266	\$ 129,400

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) 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 United States Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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

NOTE C – REFUND OF MONEY TO GRANTOR AGENCY

During fiscal year 2005, the District returned funding in the amount of \$1,933 to the State of Ohio due to the expiration of the period of availability under CFDA No. 84.352A.

NOTE D – MEDICAID

During fiscal year 2005, the District received an enhanced federal reimbursement (EFMAP) for CAFS services in the amount of \$8,895. This enhanced federal reimbursement has been included within receipts and disbursements under CFDA No. 93.778 as these monies were commingled.

In addition, the District received receipts in the amount of \$31,331 during fiscal year 2005 from the Ohio Department of Mental Retardation and Developmental Disabilities for claims processed by the State during fiscal year 2004. These monies are also included as part of CFDA No. 93.778 within the Schedule.

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**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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 7, 2006, wherein we noted that the District is experiencing certain financial difficulties and that the District's component unit ceased operations. We also noted the District implemented GASB Technical Bulletin No. 2004-02. 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 in order to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-002 and 2005-004.

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 conditions 2005-002 and 2005-004 listed above to be material weaknesses. In a separate letter to the District's management dated September 7, 2006 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

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 and Questioned Costs as items 2005-001 and 2005-003. In a separate letter to the District's management dated September 7, 2006, 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

September 7, 2006



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 its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs 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, the District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-005. In a separate letter to the District's management dated September 7, 2006, we reported an other matter 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.

We noted a certain matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-005.

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. Our consideration of the internal control over compliance 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 item 2005-005 to be a material weakness.

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

September 7, 2006

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA No. 84.010; Twenty-First Century Community Learning Centers – CFDA No. 84.287 Nutrition Cluster – CFDA Nos. 10.550, 10.553, 10.555, and 10.558
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

The District had negative fund balances at month end for the following months tested during fiscal year 2005:

Fund	September 2004 Variance	December 2004 Variance	February 2005 Variance	June 2005 Variance
General Fund		(\$1,074,999)	(\$1,902,791)	(\$86,290)
Latchkey Fund (013)	(\$5,589)	(\$9,253)	(\$5,726)	
Student Intervention Grant Fund (460)	(\$16,233)			
Miscellaneous State Grant Fund (499)		(\$6,029)	(\$9,291)	(\$2,925)
Title VI-B Fund (516)	(\$7,636)			
Title V Fund (573)		(\$3,866)	(\$204)	
Miscellaneous Federal Grant Fund (599)				(\$3,442)

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

Officials' Response and Corrective Action Plan

Due to our fiscal situation, there will be times throughout the year where negative cash balances exist in the General Fund. As part of our fiscal caution plan, which was approved by the Ohio Department of Education on July 12, 2006, we are addressing projected deficits through reduction in staff, changes in employee insurance premiums, and reductions in non personnel spending.

FINDING NUMBER 2005-002

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 transactions types and account balances.

During fiscal year 2005, the District updated its capital asset policy which included revisions to the classification and estimated useful lives of assets. However, the financial statements were not prepared in accordance with the revised policy. The District continued to depreciate and account for capital assets based upon its previous accounting policies and practices. We also noted that no reconciliation was performed between the District's capital outlay accounts and additions made to the capital asset records and reported by the District.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

**FINDING NUMBER 2005-002
(Continued)**

Material Weakness (Continued)

The District's failure to follow its revised policy resulted in the District's capital assets being understated on the basic financial statements and significant adjustments were required in order to correct these errors. In addition, the District's failure to reconcile capital outlay expenditures to capital asset additions recorded in its inventory records resulted in several expenses not being properly capitalized as assets, including expenses related to the District's building projects, contracts and retainage payable related to these projects, and various equipment purchases.

We recommend management periodically review the capital asset policy in order to ensure that the District's records and reports are in compliance with its policy. A copy of the latest policy should be provided to the consultant preparing the District's financial statements in order to assist in the preparation of the District's annual report in accordance with generally accepted accounting principles. We also recommend that management perform a detailed observation of the District's capital assets periodically to ensure that capital asset records are being updated appropriately.

In addition, management should develop a process where expenditure documentation (contracts, purchase orders, vouchers, etc.) are reviewed on an ongoing basis to identify those expenditures that should be recorded as capital asset additions. This process would help assure that capital assets additions are updated on a continuing basis throughout the year. Management should also periodically reconcile its capital outlay expenditures to additions on the District's capital assets records. Documentation of asset disposals, including listing of assets sold at auctions, should be obtained by management in a timely manner and used to update the capital assets records.

Officials' Response and Corrective Action Plan

We will be reviewing our Capital Asset policy and how we report assets to ensure uniformity between both.

We will be having an appraisal company do a physical appraisal to update our records. It will also provide a system for us to internally update our inventory. In addition, we will have a procedure in place for a manual or random check of inventory by room.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code § 149.351 (A) requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Rev. Code §§ 149.38 through 149.42.

Daily food service activity documentation was not retained by the District for several schools as noted in Finding Number 2005-005.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

**FINDING NUMBER 2005-003
(Continued)**

Noncompliance Citation - Ohio Rev. Code § 149.351 (A) (Continued)

Noncompliance with this law could result in monies due not being collected by the District. Furthermore, failure to properly retain records resulted in questioned federal costs related to the National School Lunch Program, as also noted in Finding Number 2005-005. This was due to a lack of support for monthly food service reports submitted to the Ohio Department of Education for reimbursement which contain the total number of student meals served.

We recommend that the District retain all supporting documentation and records for the required amount of time deemed necessary by the Ohio Revised Code and relevant record retention schedules.

Officials' Response and Corrective Action Plan (see Officials' Response for Finding Number 2005-005)

FINDING NUMBER 2005-004

Material Weakness

The District should develop and implement uniform internal control procedures for all schools within the District. Evidence that these procedures have been carried out should be maintained and the District should monitor that these control procedures are being carried out on a periodic basis.

During fiscal year 2005, the daily receipt documentation maintained for the food service receipt cycle was found to have various control failures and absences of developed control procedures. The following is a listing of control failures and absences of control procedures noted during our testing:

Schools using the Café Terminal System (namely Zanesville High School, Grover Cleveland Middle School and Roosevelt Middle School) had the following deficiencies:

- Daily Sales Activity Reports and Closing Receipts were not signed by a head cook/cashier indicating that the reports had been reviewed and reconciled to the cash collected.
- Explanations were not provided on the Closing Receipts for variances between the system-calculated balance and the actual cash collected.
- Daily Sales Activity Reports were not maintained in hard copy form for Zanesville High School.
- Although data from the daily Sales Activity Reports were directly linked in the system to produce monthly reports, the amounts noted as "Received on Account" did not agree from the daily Sales Activity Reports to the CN-7 reports for all ten dates tested for Roosevelt Middle School. Daily variances ranged from under \$1 to slightly over \$4. One of the ten dates tested for Grover Cleveland Middle School contained a similar discrepancy in the amount of \$1.85.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

**FINDING NUMBER 2005-004
(Continued)**

Material Weakness (Continued)

- Deposit slips were not initialed by the cooks/cashiers for all dates tested for Grover Cleveland and Roosevelt Middle Schools, evidencing agreement between the actual amount collected, the system reports, and the amount actually deposited.

Schools using daily Pre-Count Forms (namely McIntire Elementary, McKinley Elementary, Munson Elementary, Pioneer Elementary, Pleasant Grove Elementary, Rufus Putnam Elementary and Wilson Elementary) had the following deficiencies:

- Pre-Count Forms were not consistently initialed by the teacher preparing the form to indicate that the amounts recorded were accurate based on the teacher's observation of his/her students in the lunch room.
- Some Pre-Count Forms contained alterations in the number of lunches served without the initials of the individual who made the alterations. In addition, we noted that for some dates tested for Pioneer Elementary, the number of "free" lunches indicated on the Pre-Count Forms was increased for nearly every classroom, such as on February 22, 2005. No increases were made to the "paid" or "reduced" lunch counts for these particular dates in question.
- Pre-Count Forms were not properly maintained for all dates of service. We noted a significant decrease in the number of "free" lunches served for Rufus Putnam Elementary on March 23, 2005 as recalculated from the Pre-Count Forms. Further examination revealed that 8 of the 24 classroom records were missing from the daily records. Furthermore, daily records were missing entirely for the following schools during the following periods: McKinley Elementary School – January 3, 2005 through January 31, 2005; Pleasant Grove Elementary School – November 30, 2004 through June 3, 2005; and Westview Elementary School – August 24, 2004 through August 26, 2004, and September 15 and 16, 2004.
- Complete tracking of total milk, a la carte items, and/or adult lunches sold was not maintained on the Pre-Count Forms. Therefore, some of these amounts could not be agreed to those amounts reported on the CN-7 report. No additional supporting documentation was presented for audit to demonstrate how these amounts were calculated for reporting purposes.
- Total number of lunches for each type of lunch did not always agree from the Pre-Count Forms to the CN-7 reports. The following schools had instances where the amount reported as "Free" lunches served did not agree to the totaled Pre-Count Forms: Munson Elementary, Pioneer Elementary, Pleasant Grove Elementary, Rufus Putnam Elementary, and Wilson Elementary. The following schools had instances where the amount reported as "Reduced" and "Paid" lunches served did not agree to the totaled Pre-Count Forms: Munson Elementary, Pleasant Grove Elementary, Rufus Putnam Elementary, and Wilson Elementary. Variances ranged from 3 served lunches under the totaled Pre-Count forms for one particular type of lunch, to 27 served lunches over the totaled Pre-Count forms for one particular type of lunch. The largest and most frequent variances occurred in the number of "Free" lunches reported.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

**FINDING NUMBER 2005-004
(Continued)**

Material Weakness (Continued)

- Some variances were noted between the total amount that should have been collected for student lunches, based on our recalculation (number of lunches times the applicable rates), and the amount reported on the CN-7 reports. This was due, in part, to the occurrence of some students not paying for lunches on the date the lunch was served. The student lunch was included in the number of lunches served, and a note was written on the Pre-Count forms that the student “charged” the lunch. Monies were received on a subsequent date for deposit, and a note would be written on the Pre-Count forms for the date of actual receipt. However, no method of tracking the amount due from unpaid students was noted, allowing the District to ensure that all monies due were paid.
- Deposit slips were not initialed by the cooks/cashiers for all dates tested evidencing agreement between the actual amount collected, the supporting documentation, and the amount actual deposited.

Westview Elementary utilized a cash register in the cafeteria in order to track the daily activity. The following deficiencies were noted:

- Cash register tapes were not signed by head cook/cashier indicating review of daily activity and reconciliation of total monies collected with the expected amount per the register tape.
- The number of “Paid” and “Reduced” lunches served, according to the printed cash register tape, was not in agreement with the CN-7 report. However, amounts did match the number of “Paid’ and “Reduced” lunches that were penciled onto the receipt next to the printed figures provided. No additional supporting documentation was provided in order to determine how these figures were calculated.
- Deposit slips were not initialed by the cooks/cashiers for all dates tested evidencing agreement between the actual amount collected, the supporting documentation, and the amount actual deposited.

Failure to develop and implement adequate control procedures could allow errors and/or omissions to occur and remain undetected within the food service cycle, and could ultimately result in inaccurate federal reimbursements for the Child Nutrition Cluster. During the audit period, the District’s failure to maintain adequate supporting documentation resulted in questioned costs, as discussed in Finding Number 2005-005. Also, failure to properly verify and review student lunches served could allow for federal reimbursement claims for the Child Nutrition Cluster to be over or understated. If claims are discovered to be overstated, it could result in further questioned federal costs for the District.

As recommended in the Performance Audit of Zanesville City School District, dated January 20, 2005, the Board of Education should develop and implement an accounting policy and procedures manual. Specific procedures for the food service receipts and reporting processes should be included in the manual.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

**FINDING NUMBER 2005-004
(Continued)**

Material Weakness (Continued)

Some control procedures that should be addressed in the policy and procedures manual should include:

- Retention of all documentation used to supporting the number of meals served and dollar amounts received for meals as reported to the Ohio Department of Education;
- Review of daily documentation by cafeteria staff not involved in the collection process, with reviews properly documented through the use of signatures/initials, and explanations provided when deemed necessary; and
- Evidence of reconciliation among daily reports (Pre-Count Forms/Sales Activity Reports and Closing Receipts/cash register tapes, amount of cash collected, and the deposit slip) through the use of initials on the deposit ticket prior to deposit.

Officials' Response and Corrective Action Plan (see Officials' Response for Finding Number 2005-005)

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2005-005
CFDA Title and Number	10.550 – Food Distribution Program; 10.553 – School Breakfast Program; 10.555 – National School Lunch Program; and 10.558 – Child and Adult Care Program
Federal Award Number / Year	045179-05PU-2004; 045179-05PU-2005; 045179-LLP1-2004; 045179-LLP1-2005; 045179-LLP4-2004; 045179-LLP4-2005; 045179-CCMO-2004; and 045179-CCMO-2005
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Reporting - Questioned Cost/Noncompliance

7 C.F.R. § 210.7 (c)(1)(iii) requires that all claims for reimbursement for free and reduced lunches served to children under the school nutrition programs be supported by accurate meal counts by category and type taken at the point of service.

During fiscal year 2005, the District did not have policies and procedures in place regarding the maintenance of food service records. Consequently, certain food service records were destroyed or misplaced and the District could not provide records to substantiate the number of meals served for the following schools and dates of service:

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Reporting - Questioned Cost/Noncompliance - 7 C.F.R. § 210.7 (c)(1)(iii) (Continued)

- McKinley Elementary from January 3, 2005 through January 31, 2005;
- Pleasant Grove Elementary from November 30, 2004 through June 3, 2005; and
- Westview Elementary from August 24, 2004 though August 26, 2004, and September 15 and 16, 2004.

Therefore, a questioned cost for unsupported reimbursements is reported in the amount of \$22,208 based upon the following number of meals served and reimbursement rates for 2005 obtained from the Ohio Department of Education:

	McKinley Elementary	Pleasant Grove Elementary	Westview Elementary	Grand Total
Number of Paid Lunches Served	495	6,841	933	
Reimbursement Rate	\$0.24	\$0.22	\$0.22	
Subtotal	\$119	\$1,505	\$205	\$1,829
Number of Free Lunches Served	1,940	5,269	505	
Reimbursement Rate	\$2.34	\$2.32	\$2.32	
Subtotal	\$4,540	\$12,224	\$1,172	\$17,935
Number of Reduced Lunches Served	142	1,027	102	
Reimbursement Rate	\$1.94	\$1.92	\$1.92	
Subtotal	\$275	\$1,972	\$196	\$2,443
Grand Total	\$4,934	\$15,701	\$1,573	\$22,208

As more fully disclosed in Finding Number 2005-003, the lack of adequate policies and procedures could result in improper federal reimbursements and additional federal questioned costs. In addition to those recommendations included as part of Finding Number 2005-003, we recommend the District's policies and procedures address the retention of records and that the appropriate records be retained to support the number of meals served, by type, at each school.

Officials' Response and Corrective Action Plan for Finding Numbers 2005-003, 2005-004, and 2005-005

As part of the combining of several schools, lunchroom records from McKinley Elementary and Pleasant Grove Elementary were inadvertently destroyed prior to moving into new schools.

A check with the Nutrition Division of the Ohio Department of Education revealed that we are in compliance with their State standards on lunchroom reporting. However, we will correct the items noted above by implementing the following:

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Officials' Response and Corrective Action Plan for Finding Numbers 2005-003, 2005-004, and 2005-005 (Continued)

- We will be placing the Café Terminal System in all schools. This will allow for the Daily Sales Activity Reports to be maintained in hard copy form for all schools.
- As part of the before school in-service with head cooks, the following required procedures were outlined:
 - Daily Sales Activity Reports and Closing Receipts will be signed by a head cook/cashier indicating that the reports had been reviewed and reconciled to the cash collected.
 - Explanations will be documented on any variances between the system-calculated balance and the actual cash collected.
 - Any variance between the data from the daily Sales Activity reports to the Received on Account reports (such as the \$1-\$4 noted in this finding) will be documented and signed by the head cook.
 - Deposit slips will be initialed by the cooks/cashiers.

Pre-count forms will not be necessary since all buildings this year will have the Café Terminal System in place. Students from James Madison were served lunch at Rufus Putnam, resulting in variances during testing. All head cooks will be documenting these variances as well.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-001	Ohio Rev. Code § 5705.41(B) – Expenditures exceeded appropriations within the District’s General Fund by \$1,069,632.	No	Partially corrected. Citation is included in a separate letter to management as the District’s noncompliance during fiscal year 2005 did not rise to the level of noncompliance during fiscal year 2004.
2004-002	Ohio Rev. Code § 135.18(A) – The District’s deposits exceeded federal deposit insurance and pledged collateral by \$2,544,142 as of June 30, 2005.	Yes	Fully corrected.
2004-003	Material weakness – Several significant deficiencies were noted within the District’s capital asset policy.	No	Partially corrected. The District adopted a new capital asset policy on June 22, 2005 which addressed the weaknesses noted. However, the District did not follow this policy for reporting capital assets for fiscal year 2005 as more fully discussed in finding number 2005-002.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2005**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001 through 2005-005	See Officials' Response after each finding for a corrective action plan.	Ongoing.	Cindy Nye, Treasurer



**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 26, 2006**