



Dave Yost • Auditor of State

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the School District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures (the Schedule) presents additional analysis as required by the 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 financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

As management of the Zanesville City School District (the School District), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the notes to the basic financial statements.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- Net position of governmental activities decreased \$4,973,563.
- General revenues accounted for \$34,479,749 in revenue or 79 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$9,296,846 or 21 percent of total revenues of \$43,776,595.
- The School District had \$48,750,158 in expenses relating to governmental activities; only \$9,296,846 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues in the amount of \$34,479,749 were not adequate to provide for these programs.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While these documents contain information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2013?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begin on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for multiple financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

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

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

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

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 1 - Net Position

	Governmental Activities		
	2013	2012	Change
Assets			
Current and Other Assets	\$27,043,743	\$32,577,778	(\$5,534,035)
Capital Assets	82,920,471	85,095,101	(2,174,630)
Total Assets	109,964,214	117,672,879	(7,708,665)
Liabilities			
Long-Term Liabilities	32,285,222	32,787,477	(502,255)
Other Liabilities	5,906,501	5,873,873	32,628
Total Liabilities	38,191,723	38,661,350	(469,627)
Deferred Inflows of Resources			
Property Taxes	7,835,184	10,100,659	(2,265,475)
Net Position			
Net Investment in Capital Assets	52,891,647	54,887,547	(1,995,900)
Restricted	7,589,515	7,753,260	(163,745)
Unrestricted (Deficit)	3,456,145	6,270,063	(2,813,918)
Total Net Position	\$63,937,307	\$68,910,870	(\$4,973,563)

Total assets decreased \$7,708,665. The decrease in assets is primarily due to a decrease in cash and cash equivalents, property taxes receivable, and capital assets.

Total liabilities decreased by \$469,627. Long-term liabilities decreased by \$502,255. The majority of the decrease in long-term liabilities is primarily due to School District making required debt service payments on outstanding debt.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2013, and comparisons to fiscal year 2012.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2 - Changes in Net Position

Revenues	Governmental Activities		
	2013	2012	Change
Program Revenues:			
Charges for Services and Sales	\$1,880,750	\$2,396,108	(\$515,358)
Operating Grants, Contributions, and Interest	7,369,294	7,637,289	(267,995)
Capital Grants and Contributions	46,802	46,802	0
Total Program Revenues	9,296,846	10,080,199	(783,353)
General Revenue:			
Property Taxes	10,272,131	9,502,064	770,067
Payment in Lieu of Taxes	25,152	508	24,644
Grants and Entitlements	23,922,896	24,273,768	(350,872)
Gain on Sale of Capital Asset	0	4,000	(4,000)
Investment Earnings	36,997	33,911	3,086
Miscellaneous	222,573	159,135	63,438
Total General Revenues	34,479,749	33,973,386	506,363
Total Revenues	43,776,595	44,053,585	(276,990)
Program Expenses			
Instruction:			
Regular	19,725,508	18,294,491	1,431,017
Special	7,990,895	8,015,656	(24,761)
Vocational	454,358	470,970	(16,612)
Intervention	142,599	145,655	(3,056)
Support Services:			
Pupils	2,439,807	2,585,687	(145,880)
Instructional Staff	3,520,571	3,547,576	(27,005)
Board of Education	73,605	145,153	(71,548)
Administration	2,220,828	2,250,224	(29,396)
Fiscal	649,307	613,039	36,268
Operation and Maintenance of Plant	3,926,368	3,629,112	297,256
Pupil Transportation	1,466,313	1,438,338	27,975
Central	335,716	680,339	(344,623)
Operation of Non-Instructional Services:			
Food Service Operations	2,145,255	2,291,347	(146,092)
Shared Services	63,673	0	63,673
Other	836,143	404,662	431,481
Extracurricular Activities	714,645	720,526	(5,881)
Interest	2,044,567	2,820,773	(776,206)
Total Program Expenses	48,750,158	48,053,548	696,610
<i>Change in Net Position</i>	<i>(4,973,563)</i>	<i>(3,999,963)</i>	<i>(973,600)</i>
Net Position Beginning of Year	68,910,870	76,170,783	(7,259,913)
Prior Period Adjustment	0	(3,259,950)	3,259,950
Net Position Beginning of Year	68,910,870	72,910,833	(3,999,963)
Net Position End of Year	\$63,937,307	\$68,910,870	(\$4,973,563)

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Total revenues decreased \$276,990. This decrease is primarily due to decreases in charges for services and sales and operating grants, contributions, and interest. The decrease in charges for services and sales is largely due to a decrease in open enrollment fees. The decrease in operating grants, contributions, and interest is due to the timing of federal and state grant receipts. These decreases were also offset by an increase in property tax revenue in the amount of \$770,067. The increase in property tax revenue is due to the timing of the due date of the real estate tax bills.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 23 percent of governmental activities revenues for the School District in fiscal year 2013. The remaining 77 percent of revenues are received through outside sources, such as restricted and unrestricted grants in aid.

Instruction comprises approximately 58 percent of governmental program expenses, support services make up approximately 30 percent of the program expenses, operation of non-instructional services make up approximately 6 percent of program expenses, and the remaining 6 percent of program expenses is related to extracurricular activities and interest expenses of the School District.

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

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 3 - Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2013	2013	2012	2012
Program Expenses				
Instruction:				
Regular	\$19,725,508	\$17,964,798	\$18,294,491	\$15,711,515
Special	7,990,895	6,070,166	8,015,656	5,986,352
Vocational	454,358	396,679	470,970	413,291
Intervention	142,599	142,599	145,655	145,655
Support Services:				
Pupils	2,439,807	2,378,630	2,585,687	2,368,718
Instructional Staff	3,520,571	1,301,360	3,547,576	1,602,369
Board of Education	73,605	73,605	145,153	145,153
Administration	2,220,828	2,073,441	2,250,224	2,089,970
Fiscal	649,307	649,307	613,039	613,039
Operation and Maintenance of Plant	3,926,368	3,655,268	3,629,112	3,379,824
Pupil Transportation	1,466,313	1,346,764	1,438,338	1,297,007
Central	335,716	330,477	680,339	675,054
Operation of Non-Instructional Services:				
Food Service Operations	2,145,255	34,373	2,291,347	190,819
Shared Services	63,673	63,673	0	0
Other	836,143	361,258	404,662	22,464
Extracurricular Activities	714,645	566,347	720,526	511,346
Interest	2,044,567	2,044,567	2,820,773	2,820,773
Totals	\$48,750,158	\$39,453,312	\$48,053,548	\$37,973,349

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. For 2013, only 19 percent of the governmental activities performed by the School District are supported through program revenues such as charges for services, grants, contributions, and interest. The remaining 81 percent is provided through taxes and entitlements.

The School District's Major Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues in the amount of \$43,787,433 and expenditures in the amount of \$45,793,746.

General Fund

The fund balance of the General Fund at June 30, 2013, is \$3,818,004, a decrease of \$2,375,003. The decrease is due primarily to a decrease in property taxes revenue due to the change in the second-half collection dates for Muskingum County. The second-half collection date was historically in August, but in 2012 the collection date was changed to June 29. The collection date was changed again in 2013 to July 5. In addition to the decreases in revenues, expenditures increased from \$33,311,342 in fiscal year 2012 to \$35,658,348 in fiscal year 2013.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Bond Retirement Debt Service Fund

The fund balance of the Bond Retirement Fund at June 30, 2013, is \$2,914,878, a decrease of \$265,217 from the prior year primarily due to a decrease in property taxes receivable.

General Fund Budgeting Highlights

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

During the course of fiscal year 2013, the School District amended its General Fund budget. The School District closely monitors its resources and uses and if necessary, modifies appropriations on a timely basis.

The General Fund had original revenue budget estimates of \$33,662,301. The original budget estimates were increased to a final budget amount of \$35,038,990 for the fiscal year. Actual revenues were \$826,641 less than final budgeted estimates.

The General Fund had original expenditure budget estimates of \$34,024,397. The original budget estimates were increased to a final budget amount of \$36,349,245 for the fiscal year. Actual expenditures were \$934,203 below final budgeted estimates.

The School District's ending unobligated General Fund budgetary balance was \$107,562 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$82,920,471 invested in land, buildings and building improvements, improvements other than buildings, and furniture, fixtures, equipment, and vehicles. Table 4 shows fiscal year 2013 balances compared to 2012.

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

	2013	2012
Land	\$2,494,644	\$2,494,644
Construction in Progress	0	5,583
Buildings and Building Improvements	76,237,412	78,742,741
Improvements Other Than Buildings	2,063,317	2,157,321
Furniture, Fixtures, Equipment and Vehicles	2,125,098	1,694,812
Totals	\$82,920,471	\$85,095,101

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

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Debt

At June 30, 2013, the School District had \$30,686,576 in bonds, accretion, and unamortized premium and discount outstanding.

Table 5
Outstanding Debt, at Fiscal Year End

	2013	2012
2002 School Facilities		
Serial Bonds - 2.25-5.38%	\$0	\$620,000
Serial / Term Bond Discount	0	(2,541)
Capital Appreciation Bonds - 5.375%	172,393	172,393
Capital Appreciation Bonds Accretion	473,440	397,767
Capital Appreciation Bond Premium	18,214	36,428
Total School Facilities Bonds	<u>664,047</u>	<u>1,224,047</u>
2011 School Improvement Refunding Bonds		
Serial Bonds, \$16,680,000 @ 2.0%-5.0%	16,545,000	16,545,000
Serial Bond Premium, \$806,489	691,277	748,883
Capital Appreciation Bonds - 2.85%	41,759	41,759
Capital Appreciation Bonds Accretion	39,997	17,019
Capital Appreciation Bond Premium, \$249,939	214,233	232,086
Total School Improvement Refunding Bonds	<u>17,532,266</u>	<u>17,584,747</u>
2012 Refunding Bonds		
Current Interest Bonds, \$10,000,000 @ 2.0%-3.5%	9,585,000	10,000,000
Current Interest Bond Premium \$123,740	114,901	123,740
Current Interest Bond Discount, \$145,026	(134,667)	(145,026)
Capital Appreciation Bonds - 3.49% - 3.62%	1,910,000	1,910,000
Capital Appreciation Bond Accretion	142,462	15,781
Capital Appreciation Bond Premium, \$939,688	872,567	939,688
Total School Improvement Refunding Bonds	<u>12,490,263</u>	<u>12,844,183</u>
Total General Obligation Bonds	<u>\$30,686,576</u>	<u>\$31,652,977</u>

See Note 14 for more detailed information of the School District's debt.

Economic Factors

The School District relies upon local property taxes and State foundation/grant monies to fund its operations. In fiscal year 2013, the School District received approximately 55 percent of its revenues from the State foundation program/grants and 23 percent from local property taxes.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District will continue to be conservative in the area of expenditures. The School District completed and implemented a Corrective Action Plan which was approved by the Ohio Department of Education due to the School District being declared in fiscal caution during fiscal year 2005. The School District continues to utilize a Board Finance Committee created during fiscal year 2005. On April 21, 2010, the School District was officially released from fiscal caution by the Ohio Department of Education. Based on these factors, the Board of Education and Administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the opportunities our students have become accustomed to.

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

According to the most recent Board-approved five year forecast, the School District is projecting deficit spending beginning in fiscal year 2014 and continuing through fiscal year 2018.

Contacting the School District's Financial Management

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

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Zanesville City School District, Ohio

Statement of Net Position

June 30, 2013

	Primary Government	Component Unit
	Governmental Activities	Zanesville Community High School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,604,308	\$586,675
Cash and Cash Equivalents in Segregated Accounts	272,892	0
Cash and Cash Equivalents with Escrow Agents	75,920	0
Accounts Receivable	6,498	0
Inventory Held for Resale	17,338	0
Materials and Supplies Inventory	4,985	0
Accrued Interest Receivable	4,098	0
Prepaid Items	61,244	8,452
Due from Component Unit	128,795	0
Payment in Lieu of Taxes Receivable	8,601	0
Property Taxes Receivable	13,796,074	0
Intergovernmental Receivable	2,062,990	27,015
Nondepreciable Capital Assets	2,494,644	0
Depreciable Capital Assets, Net	80,425,827	0
<i>Total Assets</i>	<u>109,964,214</u>	<u>622,142</u>
Liabilities		
Matured Compensated Absences Payable	154,827	0
Accounts Payable	220,954	419
Retainage Payable	75,920	0
Accrued Wages and Benefits Payable	3,717,983	0
Due to Primary Government	0	128,795
Vacation Benefits Payable	165,738	0
Retirement Incentive Payable	48,000	0
Accrued Interest Payable	74,416	0
Intergovernmental Payable	975,008	2,416
Claims Payable	473,655	0
Long-Term Liabilities:		
Due Within One Year	785,755	0
Due In More Than One Year	31,499,467	0
<i>Total Liabilities</i>	<u>38,191,723</u>	<u>131,630</u>
Deferred Inflows of Resources		
Property Taxes	7,835,184	0
Net Position		
Net Investment in Capital Assets	52,891,647	0
Restricted for:		
Classroom Facilities Maintenance	895,294	0
State Grants	74,223	0
Federal Grants	1,301,459	0
Unclaimed Monies	1,492	0
Food Service	589,822	0
Capital Projects	49,111	0
Capital Projects - Ohio School Facilities Commission Project	1,034,201	0
Debt Service	3,406,063	0
Other Purposes	237,850	0
Unrestricted	3,456,145	490,512
<i>Total Net Position</i>	<u>\$63,937,307</u>	<u>\$490,512</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2013

					Net Expense and Change in Net Position	
	Expenses	Program Revenues			Primary Government	
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities	Component Unit
Governmental Activities						
Instruction:						
Regular	\$19,725,508	\$1,235,960	\$524,750	\$0	(\$17,964,798)	\$0
Special	7,990,895	67,891	1,852,838	0	(6,070,166)	0
Vocational	454,358	0	57,679	0	(396,679)	0
Intervention	142,599	0	0	0	(142,599)	0
Support Services:						
Pupils	2,439,807	0	61,177	0	(2,378,630)	0
Instructional Staff	3,520,571	0	2,219,211	0	(1,301,360)	0
Board of Education	73,605	0	0	0	(73,605)	0
Administration	2,220,828	0	147,387	0	(2,073,441)	0
Fiscal	649,307	0	0	0	(649,307)	0
Operation and Maintenance of Plant	3,926,368	95,835	128,463	46,802	(3,655,268)	0
Pupil Transportation	1,466,313	0	119,549	0	(1,346,764)	0
Central	335,716	0	5,239	0	(330,477)	0
Operation of Non-Instructional Services:						
Food Service Operations	2,145,255	208,062	1,902,820	0	(34,373)	0
Shared Services	63,673	0	0	0	(63,673)	0
Other	836,143	140,682	334,203	0	(361,258)	0
Extracurricular Activities	714,645	132,320	15,978	0	(566,347)	0
Interest	2,044,567	0	0	0	(2,044,567)	0
<i>Total Primary Government</i>	<u>\$48,750,158</u>	<u>\$1,880,750</u>	<u>\$7,369,294</u>	<u>\$46,802</u>	<u>(39,453,312)</u>	<u>0</u>
Component Unit						
Zanesville Community High School	<u>\$1,033,077</u>	<u>\$12,301</u>	<u>\$159,159</u>	<u>\$0</u>	<u>0</u>	<u>(861,617)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					7,967,326	0
Debt Service					2,154,701	0
Classroom Facilities Maintenance					150,104	0
Payment in Lieu of Taxes					25,152	0
Grants and Entitlements not Restricted to Specific Programs					23,922,896	812,129
Investment Earnings					36,997	1,300
Miscellaneous					222,573	0
<i>Total General Revenues</i>					<u>34,479,749</u>	<u>813,429</u>
<i>Change in Net Position</i>					(4,973,563)	(48,188)
Net Position Beginning of Year					<u>68,910,870</u>	<u>538,700</u>
<i>Net Position End of Year</i>					<u>\$63,937,307</u>	<u>\$490,512</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Balance Sheet
 Governmental Funds
 June 30, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,589,393	\$2,262,142	\$3,751,281	\$10,602,816
Cash and Cash Equivalents with Escrow Agents	0	0	75,920	75,920
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,492	0	0	1,492
Accounts Receivable	5,582	0	916	6,498
Accrued Interest Receivable	4,098	0	0	4,098
Intergovernmental Receivable	121,439	0	1,941,551	2,062,990
Inventory Held for Resale	0	0	17,338	17,338
Materials and Supplies Inventory	0	0	4,985	4,985
Interfund Receivable	560,225	0	60	560,285
Due from Component Unit	128,795	0	0	128,795
Prepaid Items	30,146	0	31,098	61,244
Payment in Lieu of Taxes Receivable	7,469	1,046	86	8,601
Property Taxes Receivable	10,732,596	2,859,126	204,352	13,796,074
<i>Total Assets</i>	<u>\$16,181,235</u>	<u>\$5,122,314</u>	<u>\$6,027,587</u>	<u>\$27,331,136</u>
Liabilities				
Matured Compensated Absences Payable	\$154,827	\$0	\$0	\$154,827
Accounts Payable	88,617	0	132,337	220,954
Retainage Payable	0	0	75,920	75,920
Accrued Wages and Benefits Payable	3,067,434	0	650,549	3,717,983
Interfund Payable	60	0	60,225	60,285
Intergovernmental Payable	814,916	0	160,092	975,008
<i>Total Liabilities</i>	<u>4,125,854</u>	<u>0</u>	<u>1,079,123</u>	<u>5,204,977</u>
Deferred Inflows of Resources				
Property Taxes	6,095,589	1,623,621	115,974	7,835,184
Unavailable Revenue	2,141,788	583,815	1,059,412	3,785,015
<i>Total Deferred Inflows of Resources</i>	<u>8,237,377</u>	<u>2,207,436</u>	<u>1,175,386</u>	<u>11,620,199</u>
Fund Balances				
Non-Spendable				
Inventories	0	0	4,985	4,985
Prepays	30,146	0	31,098	61,244
Unclaimed Monies	1,492	0	0	1,492
Restricted for:				
Food Service Operations	0	0	621,771	621,771
Athletics and Music	0	0	126,729	126,729
Federal Grant Expenditures	0	0	255,923	255,923
State Grant Expenditures	0	0	74,223	74,223
Local Grant Expenditures	0	0	93,027	93,027
Scholarships	0	0	18,094	18,094
Debt Service	0	2,914,878	0	2,914,878
Capital Improvements	0	0	1,083,312	1,083,312
Classroom Facilities Maintenance	0	0	853,454	853,454
Committed to:				
Capital Acquisitions	0	0	108,164	108,164
Assigned to:				
Fund Assignment for Fiscal Year 2014 Appropriations	1,210,352	0	0	1,210,352
Purchases on Order	135,627	0	0	135,627
Capital Improvements	0	0	524,408	524,408
Other Purposes	28,584	0	0	28,584
Unassigned (Deficit)	2,411,803	0	(22,110)	2,389,693
<i>Total Fund Balances</i>	<u>3,818,004</u>	<u>2,914,878</u>	<u>3,773,078</u>	<u>10,505,960</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$16,181,235</u>	<u>\$5,122,314</u>	<u>\$6,027,587</u>	<u>\$27,331,136</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Position
 June 30, 2013

Total Governmental Fund Balances		\$10,505,960
 <i>Amounts reported for governmental activities in the statement of net position are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		82,920,471
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		(700,763)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	2,756,017	
Payment in Lieu of Taxes	8,601	
Grants	1,017,572	
Tuition and Fees	415	
Miscellaneous	2,410	3,785,015
Vacation benefits and retirement incentive payables are not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(213,738)
Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are are not expected to be paid with expendable available resources and therefore are not reported in the funds.		(74,416)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Bonds Payable	(28,254,152)	
Accretion	(655,899)	
Bond Discount	134,667	
Bond Premium	(1,911,192)	
Capital Leases Payable	(16,361)	
Compensated Absences	(1,582,285)	(32,285,222)
Total Long-Term Liabilities		
 <i>Net Position of Governmental Activities</i>		 \$63,937,307

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,777,218	\$2,052,929	\$147,776	\$9,977,923
Payment in Lieu of Taxes	24,019	1,046	86	25,151
Intergovernmental	23,825,167	466,707	7,196,855	31,488,729
Investment Earnings	36,048	0	520	36,568
Tuition and Fees	1,090,955	0	0	1,090,955
Extracurricular Activities	12,469	0	260,533	273,002
Rentals	95,835	0	0	95,835
Charges for Services	212,481	0	208,062	420,543
Contributions and Donations	2,039	0	146,715	148,754
Miscellaneous	207,114	5,918	16,941	229,973
<i>Total Revenues</i>	<u>33,283,345</u>	<u>2,526,600</u>	<u>7,977,488</u>	<u>43,787,433</u>
Expenditures				
Current:				
Instruction:				
Regular	16,847,716	0	474,182	17,321,898
Special	6,159,148	0	1,716,372	7,875,520
Vocational	447,745	0	0	447,745
Intervention	137,132	0	0	137,132
Support Services:				
Pupils	2,378,070	0	64,363	2,442,433
Instructional Staff	1,262,310	0	2,085,773	3,348,083
Board of Education	69,682	0	7,247	76,929
Administration	2,035,614	0	145,586	2,181,200
Fiscal	576,057	53,355	8,093	637,505
Operation and Maintenance of Plant	3,262,613	0	472,431	3,735,044
Pupil Transportation	1,235,306	0	274,714	1,510,020
Central	305,213	0	26,708	331,921
Operation of Non-Instructional Services:				
Food Service Operations	0	0	2,035,733	2,035,733
Shared Services	41,748	0	0	41,748
Other	356,942	0	464,905	821,847
Extracurricular Activities	447,786	0	119,280	567,066
Capital Outlay	0	0	198,194	198,194
Debt Service:				
Principal Retirement	89,058	1,035,000	0	1,124,058
Interest and Fiscal Charges	6,208	953,462	0	959,670
<i>Total Expenditures</i>	<u>35,658,348</u>	<u>2,041,817</u>	<u>8,093,581</u>	<u>45,793,746</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,375,003)</u>	<u>484,783</u>	<u>(116,093)</u>	<u>(2,006,313)</u>
Other Financing Source (Use)				
Transfers In	0	0	750,000	750,000
Transfers Out	0	(750,000)	0	(750,000)
<i>Total Other Financing Source (Use)</i>	<u>0</u>	<u>(750,000)</u>	<u>750,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(2,375,003)</u>	<u>(265,217)</u>	<u>633,907</u>	<u>(2,006,313)</u>
Fund Balances Beginning of Year	<u>6,193,007</u>	<u>3,180,095</u>	<u>3,139,171</u>	<u>12,512,273</u>
<i>Fund Balances End of Year</i>	<u>\$3,818,004</u>	<u>\$2,914,878</u>	<u>\$3,773,078</u>	<u>\$10,505,960</u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
 Reconciliation of the Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds (\$2,006,313)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	1,000,023	
Depreciation Expense	<u>(3,148,920)</u>	(2,148,897)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the sale of capital assets.

(25,733)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change of the internal service fund is reported with governmental activities.

(846,605)

Revenues and expenses in the statement of activities that do not provide current financial resources are not reported as revenues and expenditures in the funds:

Tuition and Fees	415	
Payment in Lieu of Taxes	1	
Miscellaneous	(7,400)	
Grants	(298,656)	
Delinquent Property Taxes	<u>294,208</u>	(11,432)

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. The accretion of capital appreciation bonds and the amortization of premiums, discounts, and deferred amount on refunding are reported on the statement of activities:

Accrued Interest Payable	(384,816)	
Discount Amortization	(12,900)	
Premium Amortization	169,633	
Deferred Amount on Refunding Amortization	(631,482)	
Accretion of Capital Appreciation Bonds	<u>(225,332)</u>	(1,084,897)

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

Vacation Benefits Payable	(4,022)	
Retirement Incentive Payable	(48,000)	
Compensated Absences Payable	<u>78,278</u>	26,256

Repayment of principal and advance refundings are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

General Obligation Bonds	1,035,000	
Capital Leases	<u>89,058</u>	<u>1,124,058</u>

Change in Net Position of Governmental Activities (\$4,973,563)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$8,484,417	\$8,699,108	\$8,684,189	(\$14,919)
Payment in Lieu of Taxes	0	24,019	24,019	0
Intergovernmental	22,775,236	23,786,040	23,837,244	51,204
Investment Earnings	20,600	58,588	98,564	39,976
Tuition and Fees	1,228,540	1,116,297	1,098,515	(17,782)
Extracurricular Activities	12,600	1,632	12,529	10,897
Rentals	80,000	95,863	95,835	(28)
Charges for Services	1,025,000	1,067,685	194,801	(872,884)
Contributions and Donations	20,158	2,333	2,011	(322)
Miscellaneous	15,750	187,425	164,642	(22,783)
<i>Total Revenues</i>	33,662,301	35,038,990	34,212,349	(826,641)
Expenditures				
Current:				
Instruction:				
Regular	14,348,007	16,686,852	16,655,852	31,000
Special	5,934,719	6,072,277	6,064,755	7,522
Vocational	452,011	471,013	469,374	1,639
Intervention	162,064	144,226	139,036	5,190
Support Services:				
Pupils	2,390,556	2,440,528	2,461,347	(20,819)
Instructional Staff	1,041,593	964,057	1,311,625	(347,568)
Board of Education	120,298	78,626	66,368	12,258
Administration	2,200,436	2,027,040	1,999,928	27,112
Fiscal	547,281	570,248	575,097	(4,849)
Operation and Maintenance of Plant	3,353,919	3,330,146	3,245,953	84,193
Pupil Transportation	1,202,496	1,296,494	1,321,987	(25,493)
Central	733,390	756,076	314,053	442,023
Other Non-Instructional Services	1,180,277	1,066,132	348,810	717,322
Extracurricular Activities	357,350	445,530	440,857	4,673
<i>Total Expenditures</i>	34,024,397	36,349,245	35,415,042	934,203
<i>Excess of Revenues Over (Under) Expenditures</i>	(362,096)	(1,310,255)	(1,202,693)	107,562
Other Financing Source (Use)				
Advances In	15,000	15,000	15,000	0
Advances Out	(500,000)	(500,000)	(500,000)	0
<i>Total Other Financing Source (Use)</i>	(485,000)	(485,000)	(485,000)	0
<i>Net Change in Fund Balance</i>	(847,096)	(1,795,255)	(1,687,693)	107,562
Fund Balance Beginning of Year	6,085,215	6,085,215	6,085,215	0
Prior Year Encumbrances Appropriated	101,061	101,061	101,061	0
<i>Fund Balance End of Year</i>	\$5,339,180	\$4,391,021	\$4,498,583	\$107,562

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Fund Net Position

Self-Insurance Internal Service Fund

June 30, 2013

Current Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$272,892</u>
Current Liabilities	
Interfund Payable	500,000
Claims Payable	<u>473,655</u>
<i>Total Current Liabilities</i>	<u>973,655</u>
Net Position	
Unrestricted (Deficit)	<u><u>(\$700,763)</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2013

Operating Revenues	
Charges for Services	<u>\$7,177,211</u>
Operating Expenses	
Purchased Services	784,733
Claims	<u>7,239,677</u>
<i>Total Operating Expenses</i>	<u>8,024,410</u>
<i>Operating Loss</i>	(847,199)
Non-Operating Revenue	
Investment Income	<u>594</u>
<i>Change in Net Position</i>	(846,605)
<i>Net Position at Beginning of Year</i>	<u>145,842</u>
<i>Net Position (Deficit) at End of Year</i>	<u><u>(\$700,763)</u></u>

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Cash Flows

Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2013

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transactions with Other Funds	\$7,177,211
Cash Payments for Services	(784,733)
Cash Payments for Claims	<u>(7,359,791)</u>

Net Cash Used for Operating Activities (967,313)

Cash Flows from Noncapital Financing Activities

Advances In 500,000

Cash Flows from Investing Activities

Interest on Investments 594

Net Decrease in Cash and Cash Equivalents (466,719)

Cash and Cash Equivalents Beginning of Year 739,611

Cash and Cash Equivalents End of Year \$272,892

Reconciliation of Operating Loss to Net Cash

Used for Operating Activities

Operating Loss (\$847,199)

Changes in Liabilities

Decrease in Claims Payable (120,114)

Net Cash Used for Operating Activities (\$967,313)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2013

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$25,618</u>
<i>Total Assets</i>	<u><u>\$25,618</u></u>
 Liabilities	
Due to Students	\$21,715
Due to Others	<u>3,903</u>
<i>Total Liabilities</i>	<u><u>\$25,618</u></u>

See accompanying notes to the basic financial statements

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Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1849 when the first Zanesville High School was built with an enrollment of 50 students. The School District serves the City of Zanesville and is located in Muskingum County. The School District is staffed by 156 classified employees and 239 certificated full-time teaching personnel and administrative employees providing education to 3,551 students. The School District currently operates five instructional buildings, one administrative building, and one garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government.

Discretely Presented Component Unit. The component unit information on the Statement of Net Position and the Statement of Activities identifies the financial data of the School District's component unit, Zanesville Community High School. It is reported separately to emphasize that it is legally separate from the School District.

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The Zanesville Community High School operates under the direction of a seven-member Board of Directors made up of seven voting community members appointed by the sponsor's non-voting six-member Board of Directors. All governing authority members live and/or work in the Zanesville-Muskingum County community as well as to represent the interest of the Muskingum County community. The Sponsor is able to impose its will on Zanesville Community High School and, due to Zanesville Community High School's relationship with the Sponsor, it would be misleading to exclude Zanesville Community High School. The Sponsor can suspend the Zanesville Community High School's operations for any of the following reasons: 1) The Zanesville Community High School's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Zanesville Community High School's failure to meet generally accepted standards of fiscal management, 3) The Zanesville Community High School's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Zanesville Community High School uses the facilities of the Sponsor. Separately issued financial statements can be obtained from the Zanesville Community High School, 160 North Fourth Street, Zanesville, Ohio 43701.

The School District participates in four jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Mid-East Career and Technology Centers, Metropolitan Educational Council (MEC), Ohio Coalition for Equity and Adequacy of School Funding, Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), and Ohio School Benefits Cooperative (OSBC). These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

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

The Statement of Net Position presents the financial condition of the governmental activities of the School District at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

B. Fund Accounting

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

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

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

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

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

Proprietary Fund Types Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund:

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, tuition and fees, payment in lieu of taxes, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The School District has a segregated bank account for self-insurance monies held separate from the School District's central bank account. This interest bearing depository account is presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since it is not required to be deposited into the School District's treasury.

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

During fiscal year 2013, the School District's investments were limited to federal agency securities, commercial paper, and State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in federal agency securities and commercial paper are stated at fair value based on quoted market prices. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2013.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$36,048, which includes \$13,760 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received.

The School District maintains a capitalization threshold of five thousand dollars. The School District currently capitalizes land, construction in progress, buildings and buildings improvements, vehicles, and equipment, furniture and fixtures. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "Vacation Benefits Payable", rather than long-term liabilities, as the balances for most employees are to be used by employees in the fiscal year following the fiscal year in which the benefit was earned. The School District records this liability for accumulated unused vacation time when earned for classified employees with six months of service.

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Internal Activity

Transfers within governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents restricted for unclaimed monies.

N. Fund Balance

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

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

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

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

O. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations and federal and state grants restricted for specified purposes.

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

P. Extraordinary and Special Items

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Q. Estimates

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

R. Budgetary Process

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

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

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

S. Bond Premium and Discounts

On government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are accreted over the term of the bonds.

On the government fund financial statements, bond premiums and bond discounts are recognized in the period in which bonds are issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

T. Operating Revenues and Expenses

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

Note 3 - Changes in Accounting Principles

For fiscal year 2013, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements;" Statement No. 61, "The Financial Reporting Entity: Omnibus," Statement No. 62; "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements;" Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position;" Statement No. 65, "Items Previously Reported as Assets and Liabilities;" and Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the School District's financial statements.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 4 - Accountability

At June 30, 2013, the Title IV-B Grant Special Revenue Fund and the Self-Insurance Internal Service Fund had fund deficits of \$22,110 and \$700,763, respectively. The deficits are due to the recognition of accrued liabilities in accordance with generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balance

GAAP Basis	(\$2,375,003)
Net Adjustment for Revenue Accruals	868,631
Net Adjustment for Expenditure Accruals	422,446
Beginning:	
Prepaid Items	(25,456)
Adjustment to fair value of investment	10,718
Ending:	
Prepaid Items	30,146
Adjustment to fair value of investment	49,655
Advances Out	(500,000)
Advances In	15,000
Adjustment for Encumbrances	<u>(183,830)</u>
Budget Basis	<u><u>(\$1,687,693)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer’s investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,447,614 of the School District’s bank balance of \$7,988,263 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments: As of June 30, 2013, the School District had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity	S&P Rating	Percent of Total Investments
Federal Home Loan Bank Bonds	\$1,135,110	6/13/2016	AA-	35.85%
Commercial Paper	1,781,159	12/3/2013	A-1	56.25%
STAR Ohio	250,000	57.5 Days	AAAm	7.90%
Totals	<u>\$3,166,269</u>			<u>100.00%</u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Interest Rate Risk

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

Concentration of Credit Risk

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

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum County. The County Auditor periodically advances to the School District its portion of taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2013, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

At June 30, 2013, \$2,505,513 was available as an advance in the General Fund, \$652,736 in the Bond Retirement Debt Service Fund, and \$46,624 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2012, was \$3,412,484 in the General Fund, \$829,308 in the Bond Retirement Debt Service Fund, and \$67,975 in the Classroom Facilities Maintenance Special Revenue Fund. During fiscal year 2012, Muskingum County changed their second half collection date from a historical August collection date to a June 29 collection date. During fiscal year 2013, the collection date was July 5th.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second- Half Collections		2013 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$256,759,770	62.78%	\$231,003,700	62.74%
Commercial/Industrial and Public Utility Real	137,027,800	33.51%	120,576,160	32.75%
Public Utility Personal	15,187,270	3.71%	16,623,500	4.51%
Total Assessed Value	<u>\$408,974,840</u>	<u>100.00%</u>	<u>\$368,203,360</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.15		\$51.45	

Note 8 - Receivables

Receivables at June 30, 2013, consisted of property taxes, payment in lieu of taxes, accrued interest, accounts (rent, student fees and tuition), intergovernmental grants, and interfund receivable. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Delinquent property taxes in the amount of \$2,756,017 will not be collected within one year.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Muskingum Valley ESC Reimbursement	\$1,895
Bureau of Workers' Compensation Refund	61,993
Medicaid Reimbursements	35,744
Muskingum County Juvenile Detention Center Services	19,955
Food Service	48,518
Columbus CSD Reimbursement	1,946
State of Ohio Reimbursement	9,423
Race to the Top Grant	541,322
Public Preschool Grant	17,539
Title VI-B Grant	128,983
Title I Grant	717,135
Title II-A Grant	374,996
21st Century Grant	103,541
Total	<u><u>\$2,062,990</u></u>

Note 9 - Interfund Transactions

A. Interfund Balance

Interfund balances at June 30, 2013, consist of the following individual fund receivables and payables:

	<u>Receivable</u>	<u>Payable</u>
Major Fund:		
General Fund	<u>\$560,225</u>	<u>\$60</u>
Other Nonmajor Governmental Funds:		
District Managed Activities	60	13,316
Title VI-B	0	3,243
Miscellaneous Federal Grants	0	43,666
Total Other Nonmajor Governmental Funds	<u>60</u>	<u>60,225</u>
Internal Service - Self Insurance		<u>500,000</u>
Total All Funds	<u><u>\$560,285</u></u>	<u><u>\$560,285</u></u>

Interfund balance 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; to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization; and to segregate and to return money to the fund from which it was originally provided once a project is completed.

B. Transfers

During fiscal year 2013, the Bond Retirement transferred \$750,000 to the Permanent Improvement Capital Projects Fund for future capital expenditures.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Nondepreciable Capital Assets				
Land	\$2,494,644	\$0	\$0	\$2,494,644
Construction in Progress	5,583	0	(5,583)	0
Total Nondepreciable Capital Assets	<u>2,500,227</u>	<u>0</u>	<u>(5,583)</u>	<u>2,494,644</u>
Depreciable Capital Assets				
Buildings and Building Improvements	89,374,817	55,730	(890,713)	88,539,834
Improvements Other Than Buildings	3,529,449	78,978	0	3,608,427
Furniture, Fixtures, Equipment and Vehicles	3,689,421	865,315	0	4,554,736
Total at Estimated Historical Cost	<u>96,593,687</u>	<u>1,000,023</u>	<u>(890,713)</u>	<u>96,702,997</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(10,632,076)	(2,540,909)	870,563	(12,302,422)
Improvements Other Than Buildings	(1,372,128)	(172,982)	0	(1,545,110)
Furniture, Fixtures, Equipment and Vehicles	(1,994,609)	(435,029)	0	(2,429,638)
Total Accumulated Depreciation	<u>(13,998,813)</u>	<u>(3,148,920) *</u>	<u>870,563</u>	<u>(16,277,170)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>82,594,874</u>	<u>(2,148,897)</u>	<u>(20,150)</u>	<u>80,425,827</u>
Governmental Activities Capital Assets, Net	<u>\$85,095,101</u>	<u>(\$2,148,897)</u>	<u>(\$25,733)</u>	<u>\$82,920,471</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$2,710,142
Support Services:	
Pupils	1,045
Instructional Staff	59,650
Board of Education	3,923
Administration	6,464
Fiscal	1,253
Operation and Maintenance of Plant	63,247
Pupil Transportation	92,252
Operation of Non-instructional Services:	
Food Service Operations	60,867
Other	2,498
Extracurricular Activities	<u>147,579</u>
Total Depreciation Expense	<u>\$3,148,920</u>

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$393,813, \$723,085, and \$436,372, respectively. For fiscal year 2013, 73.06 percent has been contributed, with the remaining being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended 2013, 2012, and 2011, were \$1,825,435, \$1,679,452 and \$1,883,176, respectively. For fiscal year 2013, 85.16 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions to the DC and Combined Plans for fiscal year 2013 were \$15,001 made by the School District and \$10,715 made by the plan members. In addition, member contributions of \$6,112 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2013, there are two employees who have elected Social Security.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525.

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

The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$69,788, \$91,643, and \$165,163, respectively. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$21,525, \$42,385, and \$30,899, respectively. For fiscal year 2013, 72.15 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$141,242, \$130,027, and \$145,974, respectively. For fiscal year 2013, 85.16 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 13 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 272 days for certified employees and up to 276 days for classified employees, including the Superintendent and Treasurer. Upon retirement, certificated employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 68 days. Classified employees, upon retirement, receive a severance payment for one-fourth of the total sick leave accumulation up to a maximum of 71 days. In addition, teachers may earn an additional day of sick leave compensation for each year that they served with perfect attendance.

B. Insurance

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

C. Retirement Incentive

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$12,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in one lump sum in January following the year of retirement. At June 30, 2013, there were four teachers who were paid this incentive.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 14 - Long -Term Debt and Other Obligations

Detail of the changes in the long-term obligations of the School District for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Amounts Due in One Year
Governmental Activities:					
2002 School Facilities General Obligation Bonds					
Serial Bonds - 2.25%-5.38%	\$620,000	\$0	(\$620,000)	\$0	\$0
Serial / Term Bond Discount	(2,541)	0	2,541	0	0
Capital Appreciation Bonds - 5.375%	172,393	0	0	172,393	172,393
Capital Appreciation Bonds Accretion	397,767	75,673	0	473,440	473,440
Capital Appreciation Bond Premium	36,428	0	(18,214)	18,214	0
Total School Facilities Bonds	1,224,047	75,673	(635,673)	664,047	645,833
2011 School Improvement Refunding Bonds					
Serial Bonds, \$16,680,000 @ 2.0%-5.0%	16,545,000	0	0	16,545,000	0
Serial Bond Premium, \$806,489	748,883	0	(57,606)	691,277	0
Capital Appreciation Bonds - 2.85%	41,759	0	0	41,759	0
Capital Appreciation Bond Accretion	17,019	22,978	0	39,997	0
Capital Appreciation Bond Premium, \$249,939	232,086	0	(17,853)	214,233	0
Total 2011 School Improvement Refunding Bonds	17,584,747	22,978	(75,459)	17,532,266	0
2012 Refunding Bonds					
Current Interest Bonds, \$10,000,000 @ 2.0%-3.5%	10,000,000	0	(415,000)	9,585,000	0
Current Interest Bond Premium \$123,740	123,740	0	(8,839)	114,901	0
Current Interest Bond Discount, \$145,026	(145,026)	0	10,359	(134,667)	0
Capital Appreciation Bonds - 3.49% - 3.62%	1,910,000	0	0	1,910,000	0
Capital Appreciation Bond Accretion	15,781	126,681	0	142,462	0
Capital Appreciation Bond Premium, \$939,688	939,688	0	(67,121)	872,567	0
Total 2012 School Improvement Refunding Bonds	12,844,183	126,681	(480,601)	12,490,263	0
Total Bonds	31,652,977	225,332	(1,191,733)	30,686,576	645,833
Capital Lease	105,419	0	(89,058)	16,361	9,380
Compensated Absences	1,660,563	195,556	(273,834)	1,582,285	130,542
Total Long-Term Obligations	\$33,418,959	\$420,888	(\$1,554,625)	\$32,285,222	\$785,755

During December of 2002, the School District issued \$34,414,576 in voted general obligation bonds to repay outstanding bond anticipation notes. These general obligations were issued to pay the local share of school construction under the Ohio Classroom Facilities Assistance Program, as part of the Expedited Local Partnership Program. The 2002 bond issue included serial, term, and capital appreciations bonds in the amounts of \$8,275,000, \$25,900,000, and \$239,576. The bonds were sold at a premium of \$337,819 and a discount of \$41,540. These bonds were partially advance refunded during fiscal years 2011 and 2012, and the remainder will be retired from the Bond Retirement Debt Service Fund with a levy passed by the voters. The non-refunded portion of the 2002 capital appreciation bonds mature on December 1, 2013. These bonds were issued at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$680,000. For fiscal year 2013 \$75,673 was accreted for a total bond liability of \$645,833.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

On June 23, 2011, the School District issued \$16,721,759 in refunding bonds to retire \$16,722,183 of outstanding school improvement bonds. As of June 30, 2013, \$16,722,183 of the refunded bonds are still outstanding, and the balance of the irrevocable trust account was \$264,433.

The 2011 capital appreciation bonds mature on December 1, 2017. These bonds were issued at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$350,000. For fiscal year 2013, \$22,978 was accreted for a total bond liability of \$81,756.

During fiscal year 2012, the School District advance refunded the 2002 School Facilities General Obligation Term Bonds. The 2002 refunded bonds were originally issued for a twenty-five year period. On May 16, 2012, the School District issued \$11,910,000 of School Improvement General Obligation Refunding serial and capital appreciation bonds. These refunding bonds were sold with a total premium of \$123,740 that will be amortized over the term of the bonds, and a total discount of \$145,026 that will be amortized over the term of the bonds. \$12,623,342, (after premium, discount, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2002 bonds. During fiscal year 2013, the refunded 2012 School Improvement Refunding Bonds outstanding were called and paid in full and the escrow account was closed on December 3, 2012.

The 2012 capital appreciation bonds mature on December 1, 2027. These bonds were issued at a premium at the time issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$2,765,000. For fiscal year 2013, \$126,681 was accreted for a total bond liability of \$2,052,462.

The School District's overall legal debt margin at June 30, 2013, was \$7,782,667 with an unvoted debt margin of \$368,203.

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

A. Principal and Interest Requirements

A summary of the School District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2013, follows:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Fiscal Years	Principal	Interest	Total
2014	\$172,393	\$1,431,382	\$1,603,775
2015	985,000	913,925	1,898,925
2016	1,230,000	891,775	2,121,775
2017	1,606,759	1,170,754	2,777,513
2018	1,280,000	1,135,804	2,415,804
2019-2023	9,540,000	3,247,313	12,787,313
2024-2028	8,970,000	2,217,525	11,187,525
2029-2030	4,470,000	146,301	4,616,301
Totals	<u>\$28,254,152</u>	<u>\$11,154,779</u>	<u>\$39,408,931</u>

B. Capital Leases Payable

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

C. Compensated Absences

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

Note 15 - Statutory Reserves

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

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

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

	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2012	\$0
Current Year Set-aside Requirement	599,002
Current Year Offsets	(300,484)
Current Year Qualifying Disbursements	(298,518)
Total	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2013	<u>\$0</u>

The School District had qualifying expenditures and offsets during the fiscal year that reduced the capital improvements set-asides at zero. Effective July 1, 2011, House Bill 30, "The Unfunded Mandates Relief Act", eliminated the requirement that school districts annually set-aside an amount per pupil into a textbook and instructional materials fund.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Debt proceeds may be used to reduce the capital set-aside reserve. The amount used each fiscal year is limited to the amount of revenue collected to service the debt or the set-aside balance less any offsets and qualified expenditures. The fiscal year 2013, general obligation bond proceeds, less the accumulated amount of debt proceeds used as an offset, is carried forward to future fiscal years until consumed. The amount of debt proceeds that may be used as an offset in future fiscal years is \$13,103,726.

Note 16 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2013, the School District contracted with several different insurance providers for insurance coverage, as follows:

Insurance Provider	Coverage	Limit of Insurance	Deductible
Ohio Casualty	Building and Personal Property Blanket	\$104,237,730	\$5,000
Ohio Casualty	Commercial General Liability:		
	General Aggregate Limit	2,000,000	
	Completed Operations Aggregate Limit	2,000,000	
	Personal and Advertising Injury Limit	1,000,000	
	Each Occurrence Limit	1,000,000	
	Damage to Premises Rented Limit	300,000	
	Medical Expense Limit (Any One Person)	15,000	
Ohio Casualty	Commercial Inland Marine Coverage	1,524,578	1,000
Ohio Casualty	Commercial Auto Coverage:		
	Liability	1,000,000	
	Auto Medical Payments	1,000	
	Uninsured Motorists	50,000	
	Comprehensive	Cash Value	1,000
	Collision	Cash Value	1,000
Ohio Casualty	Commercial Crime Coverage:		
	Inside the Premises - Per occurrence	25,000	500
	Outside the Premises - Per messenger	25,000	500
	Forgery or Alteration - Per occurrence	100,000	500
	Employee Dishonesty - Per employee	100,000	500
Ohio Casualty	Commercial Umbrella Liability:		
	General Aggregate Limit	3,000,000	
	Completed Operations Aggregate Limit	3,000,000	
	Each Incident Limit	3,000,000	
	Retained Limits-Each Incident	10,000	
State Auto Insurance Company	Commercial Inland Marine Coverage	5,590	250
Cincinnati Insurance Company	Public Official's Bond - Treasurer	50,000	
Cincinnati Insurance Company	Public Official's Bond - Superintendent	20,000	
Cincinnati Insurance Company	Public Official's Bond - Board President	20,000	

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

For fiscal year 2013, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control, and actuarial services to the GRP.

Medical, surgical, prescription drug, and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$473,655 reported in the internal service fund at June 30, 2013, is based on an estimate provided by the third party administrator. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchased an aggregate stop-loss coverage policy in the amount of \$6,893,940 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$100,000 annually.

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

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Fiscal Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2012	\$667,812	\$6,436,763	\$6,510,806	\$593,769
2013	593,769	7,239,677	7,359,791	473,655

Note 17 - Jointly Governed Organizations

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

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Athens, Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. The continued existence of TRECA is not dependent on the School District's continued participation and the School District does not have an equity interest in or financial responsibility for the Association. During 2013, the School District paid \$198,754 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 100 Executive Drive, Marion, Ohio, 43302.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council (MEC)

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of 266 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 59 counties in Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The School District participates in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating member district in Franklin County (18 member districts) and one representative from each county.

Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. School District payments to MEC for fiscal year 2013 were \$1,753 for membership. Financial information may be obtained from the Metropolitan Educational Council, Sue Ward, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, OH 43219.

D. Ohio Coalition for Equity and Adequacy of School Funding

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of government established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives that need not be Board of Education Superintendents. A maximum of 78 steering committee representatives may be appointed by the Chairperson. The School District's membership fee was \$2,204 for fiscal year 2013. To obtain financial information write to the Ohio Coalition for Equity and Adequacy of School Funding, William Phillis, Executive Director, 100 S. Third Street, Columbus, Ohio 43215.

Note 18 - Insurance Purchasing Pools

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

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

B. Ohio School Benefits Cooperative (OSBC)

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

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. The first option is that participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The School District participates in the second option. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2013, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, and dental coverage.

Note 19 - Significant Commitments

A. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

Governmental Funds:	
General Fund	\$183,830
Nonmajor Governmental Funds	1,019,383
Total Governmental Funds	<u>\$1,203,213</u>

B. Contractual Commitments

As of June 30, 2013, the School District had contractual purchase commitments for construction services relating to the Phase II of the Ohio School Facilities Project (OSFC). The contract amount for these services is as follows:

Project	Purchase Commitments	Amounts Paid as of 06/30/2013	Amounts Remaining on Contracts
South Elementary Project	\$5,346,979	\$5,271,059	\$75,920

Phase II of the Ohio School Facilities has been completed and the buildings are currently in use. The amount remaining on the contract is retainage and will be paid out upon completion of the approved work.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 20 - Capitalized Leases

The School District has entered into capitalized leases for multiple switches and routers from Key Government Finance, Inc., a Ricoh copier from IKON, and four buses from Key Government Finance, Inc. These leases meet the criteria of a capital lease which is defined as a lease which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2013.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$9,380	\$1,620	\$11,000
2015	6,981	353	7,334
Total	<u>\$16,361</u>	<u>\$1,973</u>	<u>\$18,334</u>

The switches and routers, copier, and busses were originally capitalized in the amount of \$489,371. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2013 totaled \$89,058 in the governmental funds.

Property under Capital Leases	\$489,371
Less: Accumulated Depreciation	<u>(275,190)</u>
Total June 30, 2013	<u>\$214,181</u>

Note 21 - Operating Leases Lessor Disclosure

During 2012, the District entered into a lease agreement with Mid-East Career and Technology Centers to rent the Rufus Putnam building. The term of the lease agreement is for thirty-six months, beginning on July 1, 2011, and ending on June 30, 2014, and will continue on a month-to-month basis thereafter. The terms of the agreement called for the School District to receive annual rent payments of \$80,000 on July 15 each year.

Note 22 - Related Party Transactions

For fiscal year 2013, the School District provided \$986,857 to the Zanesville Community High School, a discretely presented component unit, for administrative, fiscal, and student services. As of June 30, 2013, Zanesville Community High School has repaid all but \$128,795 of this amount. The balance remaining to be paid is reflected as Due from Component Unit by the School District and as Due to Primary Government by the component unit. In addition, Zanesville Community High School utilizes the facilities of the School District to provide instructional services.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 23 - Zanesville Community High School

Basis of Presentation

The Zanesville Community High School is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net position. The Zanesville Community High School uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

Note 24 - Contingencies

A. Grants

The School District received 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, if applicable, cannot be determined at this time.

B. Litigation

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

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**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2012/2013	10.555	\$ 99,999	\$ 99,999
Cash Assistance:				
School Breakfast Program	2012/2013	10.553	515,356	515,356
National School Lunch Program	2012/2013	10.555	1,099,229	1,099,229
Summer Food Service Program for Children	2012/2013	10.559	100,684	100,684
Cash Assistance Subtotal			<u>1,715,269</u>	<u>1,715,269</u>
Total Child Nutrition Cluster			1,815,268	1,815,268
Child and Adult Care Food Program	2012/2013	10.558	<u>46,940</u>	<u>46,940</u>
Total U.S. Department of Agriculture			1,862,208	1,862,208
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2012 2013	84.010	304,762 <u>1,857,947</u>	339,775 <u>1,853,175</u>
Total Title I Grants to Local Educational Agencies			2,162,709	2,192,950
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B)	2012 2013	84.027	128,423 <u>859,132</u>	153,258 <u>862,366</u>
Total Special Education - Grants to States (IDEA, Part B)			987,555	1,015,624
Special Education - Preschool Grants	2012 2013	84.173	7,855 <u>21,672</u>	 <u>21,672</u>
Total Special Education - Preschool Grants			<u>29,527</u>	<u>21,672</u>
Total Special Education Cluster (IDEA)			1,017,082	1,037,296
Twenty-First Century Community Learning Centers	2012 2013	84.287	43,729 <u>196,459</u>	36,391 <u>188,767</u>
Total Twenty-First Century Community Learning Centers			240,188	225,158
Education Technology State Grants	2012	84.318	248	
Improving Teacher Quality State Grants	2012 2013	84.367	49,557 <u>332,921</u>	47,880 <u>337,446</u>
Total Improving Teacher Quality State Grants			<u>382,478</u>	<u>385,326</u>
ARRA - Race to the Top, Recovery Act:				
Race to the Top Incentives Grant	2012	84.395	40,591	27,371
Race to the Top Technology Grant	2012		82,073	3,078
Race to the Top Incentives Grant	2013		348,593	389,989
Race to the Top Resident Educator Grant	2013		2,100	2,100
Race to the Top Resident Educator Grant	2012		1,400	1,400
Race to the Top Technology Grant	2013		<u>233,522</u>	<u>233,977</u>
Total ARRA - Race to the Top, Recovery Act			<u>708,279</u>	<u>657,915</u>
Total U.S. Department of Education			<u>4,510,984</u>	<u>4,498,645</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 6,373,192</u>	<u>\$ 6,360,853</u>

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Zanesville City School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 11, 2014, wherein we noted the School District adopted Governmental Accounting Standards Board Statements No. 63 and 65.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2013-001.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Zanesville City School District's, Muskingum County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

Management's Responsibility

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

Basis for Qualified Opinion on Special Education Cluster Major Federal Program

As described in finding 2013-002 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding cash management applicable to its Special Education Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

Qualified Opinion on Special Education Cluster Major Federal Program

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster Major Federal Program* paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Special Education Cluster major federal program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School District complied in all material respects with the requirements referred to above that could directly and materially affect each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings for the year ended June 30, 2013.

Other Matters

The School District's response to our noncompliance finding is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2013-002 to be a material weakness.

The School District's response to our internal control over compliance finding is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion <ul style="list-style-type: none"> • Unmodified – Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, and ARRA - Race to the Top, Recovery Act • Qualified –Special Education Cluster (IDEA) 	
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> • Title I Grants to Local Educational Agencies, CFDA No. 84.010 • Special Education Cluster (IDEA), CFDA Nos. 84.027 and 84.173 • Improving Teacher Quality State Grants, CFDA No. 84.367 • ARRA-Race-to-the-Top, Recovery Act – CFDA No. 84.395 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

Finding Number 2013-001

Noncompliance

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013
(Continued)**

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

Finding Number 2013-001 (Continued)

Noncompliance – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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

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

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

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

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

Officials’ Response: We did not receive a response from Officials for this finding.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2013-002
CFDA Title and Number	Special Education Cluster (IDEA), CDFA Nos. 84.027 and 84.173
Federal Award Number / Year	2012/2013
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness – Cash Management

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

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

For the Special Education Fund grant, one of the four drawdowns selected for testing was not spent by the end of the month as required by the Ohio Department of Education.

We recommend the School District Treasurer review fund balances periodically to ensure that all federal receipts are expended within the required period.

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

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	A noncompliance citation was issued under Ohio Rev. Code section 5705.41 (D)(1) concerning proper certifying of funds.	No	Not Corrected. See Finding 2013-001.
2012-02 and 2011-02	A material noncompliance citation and material weakness was issued under 34 C.F.R. 80.21(c) for failure to timely expend advances of grant funds.	No	Not Corrected. See Finding 2013-002.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Zanesville City School District, Muskingum County, Ohio, has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on May 15, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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ZANESVILLE CITY SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 25, 2014**