

ZANESVILLE CITY SCHOOL DISTRICT
ANNUAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

Wilson, Phillips & Agin, CPA's, Inc.
1100 Brandywine Blvd. Building G
Zanesville, Ohio 43701



Dave Yost • Auditor of State

Board of Education
Zanesville City School District
956 Moxahaxa Avenue
Zanesville, Ohio 43701

We have reviewed the *Independent Auditors' Report* of the Zanesville City School District, Muskingum County, prepared by Wilson, Phillips & Agin, CPA's, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Zanesville City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

June 1, 2018

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**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY**

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**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

Zanesville City School District
Muskingum County
956 Moxahala Avenue
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 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 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 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 Zanesville City School District, Muskingum County, Ohio as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, during the year ended June 30, 2017, the District implemented GASB Statement No. 77, "Tax Abatement Disclosures" and the District implemented GASB's Implementation Guide No. 2016-1.

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* and schedules of net pension liabilities and pension contributions, 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 the 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.

Supplemental Information

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

The Schedule of Expenditures of Federal Award Awards present additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and was derived from and relate 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 this 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 a report dated December 5, 2017, on our consideration of the Zanesville City 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 Zanesville City School District's internal control over financial reporting and compliance.

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
December 5, 2017

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Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of the Zanesville City School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Net position of governmental activities decreased \$5,693,769.
- General revenues accounted for \$37,861,024 in revenue or 71 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$15,158,284 or 29 percent of total revenues of \$53,019,308.
- The School District had \$58,713,077 in expenses relating to governmental activities; only \$15,158,284 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues in the amount of \$37,861,024 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 2017?" 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, 2017
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 begins 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.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1 provides a summary of the School District's net position for 2017 compared to 2016.

Table 1 - Net Position

| | Governmental Activities | | |
|--|-------------------------|---------------------|----------------------|
| | 2017 | 2016 | Change |
| Assets | | | |
| Current and Other Assets | \$23,788,595 | \$23,765,983 | \$22,612 |
| Capital Assets | 72,421,957 | 75,528,734 | (3,106,777) |
| Total Assets | 96,210,552 | 99,294,717 | (3,084,165) |
| Deferred Outflows of Resources | | | |
| Pension | 11,423,750 | 5,808,183 | 5,615,567 |
| Liabilities | | | |
| Current and Other Liabilities | 6,128,964 | 5,962,511 | 166,453 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,689,231 | 1,699,121 | (9,890) |
| Due in More Than One Year: | | | |
| Net Pension Liability | 57,556,023 | 47,740,988 | 9,815,035 |
| Other Amounts | 26,621,247 | 28,084,420 | (1,463,173) |
| Total Liabilities | 91,995,465 | 83,487,040 | 8,508,425 |
| Deferred Inflows of Resources | | | |
| Property Taxes | 8,099,453 | 5,981,075 | 2,118,378 |
| Payment in Lieu of Taxes | 2,113 | 0 | 2,113 |
| Pension | 671,643 | 3,075,388 | (2,403,745) |
| Total Deferred Inflows of Resources | 8,773,209 | 9,056,463 | (283,254) |
| Net Position | | | |
| Net Investment in Capital Assets | 46,681,364 | 47,916,895 | (1,235,531) |
| Restricted | 4,662,661 | 5,605,748 | (943,087) |
| Unrestricted (Deficit) | (44,478,397) | (40,963,246) | (3,515,151) |
| Total Net Position | \$6,865,628 | \$12,559,397 | (\$5,693,769) |

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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Governmental Accounting Standards Board standards are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Total assets decreased \$3,084,165. Capital assets decreased \$3,106,777 mainly from yearly depreciation exceeding current year additions. Current assets increased by \$22,612, primarily due to a net effect between a decrease in equity in pooled cash and cash equivalents of \$648,233, a decrease in cash and cash equivalents in segregated accounts of \$268,132, an increase in property taxes receivable of \$740,024, and an increase in intergovernmental receivables of \$184,111.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Current and other liabilities increased \$166,453 due mainly to an increase in accrued wages and benefits due to increases in the number employees which occurred during the fiscal year. Long-term liabilities, excluding the pension liability, decreased \$1,473,063 primarily due to the payment of debt.

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Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2017, and comparisons to fiscal year 2016.

Table 2 - Changes in Net Position

| Revenues | Governmental Activities | | |
|---|-------------------------|---------------------|----------------------|
| | 2017 | 2016 | Change |
| Program Revenues: | | | |
| Charges for Services and Sales | \$2,252,742 | \$1,939,626 | \$313,116 |
| Operating Grants, Contributions, and Interest | 12,844,157 | 12,237,556 | 606,601 |
| Capital Contributions | 61,385 | 155,148 | (93,763) |
| Total Program Revenues | 15,158,284 | 14,332,330 | 825,954 |
| General Revenue: | | | |
| Property Taxes | 9,302,445 | 10,717,731 | (1,415,286) |
| Payment in Lieu of Taxes | 0 | 4,092 | (4,092) |
| Grants and Entitlements | 28,220,356 | 26,498,826 | 1,721,530 |
| Gain on Sale of Capital Asset | 223,397 | 174,361 | 49,036 |
| Investment Earnings | 2,001 | 62,706 | (60,705) |
| Miscellaneous | 112,825 | 31,127 | 81,698 |
| Total General Revenues | 37,861,024 | 37,488,843 | 372,181 |
| Total Revenues | 53,019,308 | 51,821,173 | 1,198,135 |
| Program Expenses | | | |
| Instruction: | | | |
| Regular | 25,894,153 | 24,302,116 | 1,592,037 |
| Special | 11,019,555 | 8,892,858 | 2,126,697 |
| Vocational | 226,077 | 208,700 | 17,377 |
| Intervention | 233,952 | 261,555 | (27,603) |
| Support Services: | | | |
| Pupils | 2,833,962 | 2,678,104 | 155,858 |
| Instructional Staff | 2,250,464 | 1,922,459 | 328,005 |
| Board of Education | 108,813 | 159,683 | (50,870) |
| Administration | 3,164,295 | 2,924,734 | 239,561 |
| Fiscal | 753,772 | 691,432 | 62,340 |
| Operation and Maintenance of Plant | 4,648,920 | 4,025,886 | 623,034 |
| Pupil Transportation | 1,837,256 | 1,537,297 | 299,959 |
| Central | 415,464 | 360,212 | 55,252 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 2,693,350 | 2,490,689 | 202,661 |
| Other | 882,676 | 958,768 | (76,092) |
| Extracurricular Activities | 837,639 | 907,578 | (69,939) |
| Interest | 912,729 | 971,910 | (59,181) |
| Total Program Expenses | 58,713,077 | 53,293,981 | 5,419,096 |
| Decrease in Net Position | (5,693,769) | (1,472,808) | (4,220,961) |
| Net Position Beginning of Year | 12,559,397 | 14,032,205 | (1,472,808) |
| Net Position End of Year | \$6,865,628 | \$12,559,397 | (\$5,693,769) |

Net position decreased \$5,693,769. Revenues reflect an overall increase of \$1,198,135 due mainly to an increase in grants and entitlements of \$1,721,530, an increase in operating grants and contributions of \$606,601, and an increase in charges for services and sales of \$313,116. The increase in general revenue grants

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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and entitlements was the result of increases in State foundation revenues for fiscal year 2017. The increase in operating grants, contributions, and interest is due to the timing of federal and state grant receipts. These increases were offset by a decrease in property taxes in the amount of \$1,415,286, due to the School District receiving less in the amount available for property taxes than in previous years, due to timing of property tax collection dates which are set by the county auditor.

Instruction comprises approximately 64 percent of governmental program expenses, support services make up approximately 27 percent of the program expenses, operation of non-instructional services make up approximately 6 percent of program expenses, and the remaining 3 percent of program expenses is related to extracurricular activities and interest expenses of the School District.

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. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 18 percent of revenues for governmental activities for the School District in fiscal year 2017. The remaining 82 percent of revenues are received through outside sources, such as restricted and unrestricted grants in aid.

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.

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Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 3 - Cost of Services

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2017 | 2017 | 2016 | 2016 |
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$25,894,153 | \$23,283,313 | \$24,302,116 | \$22,356,785 |
| Special | 11,019,555 | 3,066,760 | 8,892,858 | 1,037,425 |
| Vocational | 226,077 | 179,053 | 208,700 | 171,767 |
| Intervention | 233,952 | 233,952 | 261,555 | 261,555 |
| Support Services: | | | | |
| Pupils | 2,833,962 | 2,833,567 | 2,678,104 | 2,634,340 |
| Instructional Staff | 2,250,464 | 1,204,381 | 1,922,459 | 1,159,478 |
| Board of Education | 108,813 | 108,813 | 159,683 | 159,683 |
| Administration | 3,164,295 | 2,989,934 | 2,924,734 | 2,757,294 |
| Fiscal | 753,772 | 752,484 | 691,432 | 690,633 |
| Operation and Maintenance of Plant | 4,648,920 | 4,485,358 | 4,025,886 | 3,874,703 |
| Pupil Transportation | 1,837,256 | 1,732,770 | 1,537,297 | 1,456,325 |
| Central | 415,464 | 409,191 | 360,212 | 355,644 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 2,693,350 | 323,068 | 2,490,689 | 244,876 |
| Other | 882,676 | 467,448 | 958,768 | 398,079 |
| Extracurricular Activities | 837,639 | 571,972 | 907,578 | 431,154 |
| Interest | 912,729 | 912,729 | 971,910 | 971,910 |
| Totals | \$58,713,077 | \$43,554,793 | \$53,293,981 | \$38,961,651 |

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. For 2017, only 26 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 74 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 \$52,800,770 and expenditures in the amount of \$54,953,734.

The General Fund had total revenues of \$41,858,198 and expenditures of \$42,906,616. The General Fund's balance at June 30, 2017, decreased \$1,048,418 as a result of an increase in regular and special education instruction expenditures related to an increase in salaries and benefits. The General Fund has an ending fund balance of \$3,087,561.

The fund balance of the Bond Retirement Fund at June 30, 2017, is \$2,767,187, a decrease of \$619,923 from the prior year due to debt service payments exceeding the revenue received.

Zanesville City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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 2017, the School District amended its General Fund budget. The School District monitors its resources and uses and if necessary, modifies appropriations on a timely basis.

The General Fund had original revenue budget estimates of \$43,079,830. The original budget estimates were increased to a final budget amount of \$44,006,896 for the fiscal year, which included the changes in the State of Ohio Department of Education entitlement calculations that occurred after the original budget estimates were complete. Actual revenues were \$911,411 less than final budgeted estimates, mainly due to actual grant revenues not being received prior to the end of the fiscal year, thus reflecting as intergovernmental receivables.

The General Fund had original expenditure budget estimates of \$43,585,138. The original budget estimates were increased to a final budget amount of \$44,113,192 for the fiscal year, mainly due to increases in insurance costs, salaries, and benefits during the fiscal year. Actual expenditures were \$1,478,582 below final budgeted estimates. The School District had planned for additional expenditures in certain special cost centers within the General Fund that did not occur.

The School District's ending unobligated General Fund budgetary balance was \$567,171 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the School District had \$72,421,957 invested in land, land improvements, buildings and building improvements, improvements other than buildings, and furniture, fixtures, equipment, and vehicles. Table 4 shows fiscal year 2017 balances compared to 2016.

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

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Land | \$2,041,759 | \$2,089,416 |
| Land Improvements | 68,107 | 68,107 |
| Buildings and Building Improvements | 66,711,739 | 69,273,458 |
| Improvements Other Than Buildings | 1,850,965 | 2,014,481 |
| Furniture, Fixtures, Equipment and Vehicles | 1,749,387 | 2,083,272 |
| Totals | \$72,421,957 | \$75,528,734 |

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, 2017
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Debt

At June 30, 2017, the School District had \$26,743,610 in bonds outstanding.

Table 5 - Total Outstanding Bonds, at Fiscal Year End

| | 2017 | 2016 |
|---|------------------|------------------|
| 2015 School Bus Bonds | \$307,681 | \$405,774 |
| 2011 School Improvement Refunding Bonds | 13,887,326 | 15,229,328 |
| 2012 School Improvement Refunding Bonds | 12,548,603 | 12,726,160 |
| Total Outstanding Bonds | \$26,743,610 | \$28,361,262 |

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

Economic Factors

The Zanesville City School District relies upon local property taxes and State foundation/grant monies to fund its operations. In fiscal year 2017, the School District received approximately 53 percent of its revenues from the State foundation program/grants and 18 percent from local property taxes.

During fiscal year 2017, the School District struggled to keep expenses down thus causing deficit spending. The School District is considered a "capped district" with regards to the current Ohio Department of Education funding formula. This means that although the funding formula indicates a certain revenue amount allocated for the School District, the percentage of increase from prior year to current year funding was limited or "capped" at percentages outlined in each two year biennium State budget.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure financial stability. According to the most recent Board-approved five year forecast, the School District projected deficit spending continuing in fiscal year 2018. However, projected ending cash balances were forecasted to be positive throughout the next four years of the latest forecast.

For fiscal year 2017, the School District was one of three sponsors of community schools in the State of Ohio to receive an exemplary rating from the Ohio Department of Education. This rating is calculated with scores from three components; academic performance of the school, compliance, and quality practices. The maximum score for each component is 4, with a maximum grand total of 12. The School District received scores of 4 for academic performance, 4 for compliance, and 3 for quality practices for a grand total of 11 out of 12. The School District is very proud of this rating recognizing the success of Zanesville Community High School.

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 Michael Young, Treasurer, Zanesville City School District, 956 Moxahala Ave, Zanesville, Ohio 43701. You may also email the Treasurer at myoung@zanesville.k12.oh.us.

Zanesville City School District, Ohio
Statement of Net Position
June 30, 2017

| | Primary Government | Component Unit |
|--|----------------------------|--|
| | Governmental Activities | Zanesville Community High School |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$7,095,036 | \$592,303 |
| Cash and Cash Equivalents in Segregated Accounts | 382,984 | 0 |
| Accounts Receivable | 6,850 | 0 |
| Inventory Held for Resale | 19,417 | 0 |
| Materials and Supplies Inventory | 7,228 | 0 |
| Accrued Interest Receivable | 6,776 | 0 |
| Prepaid Items | 26,241 | 4,780 |
| Due from Component Unit | 144,410 | 0 |
| Payment in Lieu of Taxes Receivable | 2,113 | 0 |
| Property Taxes Receivable | 13,962,919 | 0 |
| Intergovernmental Receivable | 2,134,621 | 22,387 |
| Nondepreciable Capital Assets | 2,109,866 | 0 |
| Depreciable Capital Assets, Net | 70,312,091 | 10,637 |
| <i>Total Assets</i> | <u>96,210,552</u> | <u>630,107</u> |
| Deferred Outflows of Resources | | |
| Pension | 11,423,750 | 0 |
| Liabilities | | |
| Matured Compensated Absences Payable | 24,661 | 0 |
| Accounts Payable | 202,258 | 540 |
| Retainage Payable | 5,000 | 0 |
| Accrued Wages and Benefits Payable | 4,045,644 | 0 |
| Due to Primary Government | 0 | 144,410 |
| Vacation Benefits Payable | 173,628 | 0 |
| Accrued Interest Payable | 72,975 | 0 |
| Intergovernmental Payable | 1,081,371 | 1,947 |
| Claims Payable | 523,427 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 1,689,231 | 0 |
| Due In More Than One Year: | | |
| Net Pension Liability (See Note 11) | 57,556,023 | 0 |
| Other Amounts Due in More Than One Year | 26,621,247 | 0 |
| <i>Total Liabilities</i> | <u>91,995,465</u> | <u>146,897</u> |
| Deferred Inflows of Resources | | |
| Property Taxes | 8,099,453 | 0 |
| Payment in Lieu of Taxes | 2,113 | 0 |
| Pension | 671,643 | 0 |
| <i>Total Deferred Inflows of Resources</i> | <u>8,773,209</u> | <u>0</u> |
| Net Position | | |
| Net Investment in Capital Assets | 46,681,364 | 10,637 |
| Restricted for: | | |
| Classroom Facilities Maintenance | 386,132 | 0 |
| Federal Grants | 553,430 | 0 |
| Unclaimed Monies | 2,013 | 0 |
| Food Service | 112,981 | 0 |
| Capital Projects | 7,850 | 0 |
| District Managed Student Activities | 118,339 | 0 |
| Debt Service | 3,212,592 | 0 |
| Other Purposes | 269,324 | 0 |
| Unrestricted (Deficit) | (44,478,397) | 472,573 |
| <i>Total Net Position</i> | <u>\$6,865,628</u> | <u>\$483,210</u> |

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2017

| | Program Revenues | | | | Net Expense and Change in Net Position | |
|--|---------------------|--------------------------------------|---|--------------------------|---|-------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions, and Interest | Capital Contributions | Primary Government | |
| | | | | | Governmental Activities | Component Unit |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$25,894,153 | \$1,705,746 | \$905,094 | \$0 | (\$23,283,313) | \$0 |
| Special | 11,019,555 | 150,311 | 7,802,484 | 0 | (3,066,760) | 0 |
| Vocational | 226,077 | 0 | 47,024 | 0 | (179,053) | 0 |
| Intervention | 233,952 | 0 | 0 | 0 | (233,952) | 0 |
| Support Services: | | | | | | |
| Pupils | 2,833,962 | 0 | 395 | 0 | (2,833,567) | 0 |
| Instructional Staff | 2,250,464 | 0 | 1,046,083 | 0 | (1,204,381) | 0 |
| Board of Education | 108,813 | 0 | 0 | 0 | (108,813) | 0 |
| Administration | 3,164,295 | 0 | 174,361 | 0 | (2,989,934) | 0 |
| Fiscal | 753,772 | 0 | 1,288 | 0 | (752,484) | 0 |
| Operation and | | | | | | |
| Maintenance of Plant | 4,648,920 | 150 | 102,027 | 61,385 | (4,485,358) | 0 |
| Pupil Transportation | 1,837,256 | 0 | 104,486 | 0 | (1,732,770) | 0 |
| Central | 415,464 | 0 | 6,273 | 0 | (409,191) | 0 |
| Operation of | | | | | | |
| Non-Instructional Services: | | | | | | |
| Food Service Operations | 2,693,350 | 114,423 | 2,255,859 | 0 | (323,068) | 0 |
| Other | 882,676 | 92,846 | 322,382 | 0 | (467,448) | 0 |
| Extracurricular Activities | 837,639 | 189,266 | 76,401 | 0 | (571,972) | 0 |
| Interest | 912,729 | 0 | 0 | 0 | (912,729) | 0 |
| <i>Total Primary Government</i> | <u>\$58,713,077</u> | <u>\$2,252,742</u> | <u>\$12,844,157</u> | <u>\$61,385</u> | <u>(43,554,793)</u> | <u>0</u> |
| Component Unit | | | | | | |
| Zanesville Community High School | <u>\$1,052,880</u> | <u>\$251</u> | <u>\$1,149,079</u> | <u>\$0</u> | <u>0</u> | <u>96,450</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 7,475,823 | 0 |
| Debt Service | | | | | 1,684,028 | 0 |
| Classroom Facilities Maintenance | | | | | 142,594 | 0 |
| Gain on Sale of Capital Asset | | | | | 223,397 | 0 |
| Grants and Entitlements not Restricted | | | | | | |
| to Specific Programs | | | | | 28,220,356 | 123,938 |
| Investment Earnings | | | | | 2,001 | 0 |
| Miscellaneous | | | | | 112,825 | 100 |
| <i>Total General Revenues</i> | | | | | <u>37,861,024</u> | <u>124,038</u> |
| <i>Change in Net Position</i> | | | | | <u>(5,693,769)</u> | <u>220,488</u> |
| <i>Net Position Beginning of Year</i> | | | | | <u>12,559,397</u> | <u>262,722</u> |
| <i>Net Position End of Year</i> | | | | | <u>\$6,865,628</u> | <u>\$483,210</u> |

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2017

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,105,792 | \$2,319,967 | \$1,667,264 | \$7,093,023 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 2,013 | 0 | 0 | 2,013 |
| Accounts Receivable | 6,850 | 0 | 0 | 6,850 |
| Accrued Interest Receivable | 6,776 | 0 | 0 | 6,776 |
| Intergovernmental Receivable | 299,887 | 0 | 1,834,734 | 2,134,621 |
| Inventory Held for Resale | 0 | 0 | 19,417 | 19,417 |
| Materials and Supplies Inventory | 0 | 0 | 7,228 | 7,228 |
| Interfund Receivable | 1,941,824 | 0 | 25,314 | 1,967,138 |
| Due from Component Unit | 144,410 | 0 | 0 | 144,410 |
| Prepaid Items | 21,888 | 0 | 4,353 | 26,241 |
| Payment in Lieu of Taxes Receivable | 1,720 | 359 | 34 | 2,113 |
| Property Taxes Receivable | 11,471,923 | 2,276,218 | 214,778 | 13,962,919 |
| <i>Total Assets</i> | <u>\$17,003,083</u> | <u>\$4,596,544</u> | <u>\$3,773,122</u> | <u>\$25,372,749</u> |
| Liabilities | | | | |
| Matured Compensated Absences Payable | \$19,667 | \$0 | \$4,994 | \$24,661 |
| Accounts Payable | 132,247 | 0 | 70,011 | 202,258 |
| Retainage Payable | 0 | 0 | 5,000 | 5,000 |
| Accrued Wages and Benefits Payable | 3,524,273 | 0 | 521,371 | 4,045,644 |
| Interfund Payable | 25,314 | 0 | 841,824 | 867,138 |
| Intergovernmental Payable | 960,727 | 0 | 120,644 | 1,081,371 |
| <i>Total Liabilities</i> | <u>4,662,228</u> | <u>0</u> | <u>1,563,844</u> | <u>6,226,072</u> |
| Deferred Inflows of Resources | | | | |
| Property Taxes | 6,665,139 | 1,310,618 | 123,696 | 8,099,453 |
| Payment in Lieu of Taxes | 1,720 | 359 | 34 | 2,113 |
| Unavailable Revenue | 2,586,435 | 518,380 | 643,236 | 3,748,051 |
| <i>Total Deferred Inflows of Resources</i> | <u>9,253,294</u> | <u>1,829,357</u> | <u>766,966</u> | <u>11,849,617</u> |
| Fund Balances | | | | |
| Non-Spendable | | | | |
| Inventories | 0 | 0 | 7,228 | 7,228 |
| Prepays | 21,888 | 0 | 4,353 | 26,241 |
| Unclaimed Monies | 2,013 | 0 | 0 | 2,013 |
| Restricted for: | | | | |
| Food Service Operations | 0 | 0 | 175,896 | 175,896 |
| Athletics and Music | 0 | 0 | 118,339 | 118,339 |
| Local Grant Expenditures | 0 | 0 | 171,441 | 171,441 |
| Scholarships | 0 | 0 | 97,883 | 97,883 |
| Debt Service | 0 | 2,767,187 | 0 | 2,767,187 |
| Capital Improvements | 0 | 0 | 7,850 | 7,850 |
| Classroom Facilities Maintenance | 0 | 0 | 337,206 | 337,206 |
| Committed to: | | | | |
| Purchases on Order | 2,779 | 0 | 0 | 2,779 |
| Assigned to: | | | | |
| Assigned to Subsequent Year's Appropriations | 43,898 | 0 | 0 | 43,898 |
| Purchases on Order | 19,407 | 0 | 0 | 19,407 |
| Capital Improvements | 0 | 0 | 572,595 | 572,595 |
| Other Purposes | 21,081 | 0 | 0 | 21,081 |
| Unassigned (Deficit) | 2,976,495 | 0 | (50,479) | 2,926,016 |
| <i>Total Fund Balances</i> | <u>3,087,561</u> | <u>2,767,187</u> | <u>1,442,312</u> | <u>7,297,060</u> |
| <i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i> | <u>\$17,003,083</u> | <u>\$4,596,544</u> | <u>\$3,773,122</u> | <u>\$25,372,749</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, 2017

| | | |
|--|--------------|--------------------|
| Total Governmental Fund Balances | | \$7,297,060 |
| <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. | | 72,421,957 |
| 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. | | (1,240,443) |
| 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 | 3,146,834 | |
| Intergovernmental | 594,310 | |
| Tuition and Fees | 6,907 | 3,748,051 |
| 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. | | (173,628) |
| Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds. | | (72,975) |
| Some liabilities are not due and payable in the current period and, therefore, not reported in the funds: | | |
| Refunding Bonds Payable | (26,435,929) | |
| School Bus Bonds Payable | (307,681) | |
| Sick Leave Benefits Payable | (1,566,868) | (28,310,478) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds: | | |
| Deferred Outflows - Pension | 11,423,750 | |
| Net Pension Liability | (57,556,023) | |
| Deferred Inflows - Pension | (671,643) | (46,803,916) |
| Net Position of Governmental Activities | | \$6,865,628 |

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, 2017

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$7,235,981 | \$1,569,942 | \$138,021 | \$8,943,944 |
| Payment in Lieu of Taxes | 1,706 | 308 | 34 | 2,048 |
| Intergovernmental | 32,584,963 | 381,960 | 8,178,129 | 41,145,052 |
| Investment Earnings | 1,967 | 0 | 12 | 1,979 |
| Tuition and Fees | 1,602,082 | 0 | 0 | 1,602,082 |
| Extracurricular Activities | 67,439 | 0 | 214,673 | 282,112 |
| Rentals | 150 | 0 | 0 | 150 |
| Charges for Services | 251,259 | 0 | 114,423 | 365,682 |
| Contributions and Donations | 4,029 | 0 | 340,867 | 344,896 |
| Miscellaneous | 108,622 | 0 | 4,203 | 112,825 |
| <i>Total Revenues</i> | <u>41,858,198</u> | <u>1,952,210</u> | <u>8,990,362</u> | <u>52,800,770</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 22,175,450 | 0 | 323,217 | 22,498,667 |
| Special | 6,604,857 | 0 | 3,814,589 | 10,419,446 |
| Vocational | 213,070 | 0 | 0 | 213,070 |
| Intervention | 237,037 | 0 | 0 | 237,037 |
| Support Services: | | | | |
| Pupils | 2,706,137 | 0 | 296 | 2,706,433 |
| Instructional Staff | 1,056,226 | 0 | 1,081,000 | 2,137,226 |
| Board of Education | 107,364 | 0 | 0 | 107,364 |
| Administration | 2,773,953 | 0 | 183,055 | 2,957,008 |
| Fiscal | 675,779 | 37,451 | 3,754 | 716,984 |
| Operation and Maintenance of Plant | 3,737,167 | 0 | 651,032 | 4,388,199 |
| Pupil Transportation | 1,464,977 | 0 | 104,979 | 1,569,956 |
| Central | 385,468 | 0 | 7,267 | 392,735 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 0 | 0 | 2,522,470 | 2,522,470 |
| Other | 315,502 | 0 | 483,133 | 798,635 |
| Extracurricular Activities | 449,454 | 0 | 225,116 | 674,570 |
| Capital Outlay | 0 | 0 | 75,077 | 75,077 |
| Debt Service: | | | | |
| Principal Retirement | 4,175 | 1,663,093 | 0 | 1,667,268 |
| Interest and Fiscal Charges | 0 | 871,589 | 0 | 871,589 |
| <i>Total Expenditures</i> | <u>42,906,616</u> | <u>2,572,133</u> | <u>9,474,985</u> | <u>54,953,734</u> |
| <i>Excess of Revenues Under Expenditures:</i> | <u>(1,048,418)</u> | <u>(619,923)</u> | <u>(484,623)</u> | <u>(2,152,964)</u> |
| Other Financing Sources | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 271,054 | 271,054 |
| <i>Net Change in Fund Balances</i> | (1,048,418) | (619,923) | (213,569) | (1,881,910) |
| Fund Balances Beginning of Year | 4,135,979 | 3,387,110 | 1,655,881 | 9,178,970 |
| <i>Fund Balances End of Year</i> | <u>\$3,087,561</u> | <u>\$2,767,187</u> | <u>\$1,442,312</u> | <u>\$7,297,060</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, 2017

| | | |
|---|-------------|----------------------|
| Net Change in Fund Balances - Total Governmental Funds | | (\$1,881,910) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. | | |
| Capital Asset Additions | 61,536 | |
| Capital Contributions | 17,500 | |
| Depreciation Expense | (3,138,156) | (3,059,120) |
| Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the proceeds from the sale of capital assets and loss on the sale of capital assets. | | |
| Gain on the Sale of Capital Assets | 223,397 | |
| Proceeds from the Sale of Capital Assets | (271,054) | (47,657) |
| The internal service fund provided 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. | | |
| | | (352,781) |
| 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 | 6,876 | |
| Payment in Lieu of Taxes | (2,048) | |
| Intergovernmental | (381,562) | |
| Charges for Services | (4,160) | |
| Delinquent Property Taxes | 358,501 | (22,393) |
| 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 and discounts are reported on the statement of activities: | | |
| Accrued Interest Payable | 4,301 | |
| Discount Amortization | (7,399) | |
| Premium Amortization | 211,377 | |
| Accretion of Capital Appreciation Bonds | (249,419) | (41,140) |
| 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 | (11,549) | |
| Sick Leave Benefits Payable | (148,764) | (160,313) |
| 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: | | |
| Refunding Bonds | 1,565,000 | |
| School Bus Bonds | 98,093 | |
| Capital Leases | 4,175 | 1,667,268 |
| Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows. | | |
| | | 2,981,807 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. | | |
| | | (4,777,530) |
| Change in Net Position of Governmental Activities | | (\$5,693,769) |

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, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------|------------------|-------------|-------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$8,755,596 | \$8,944,014 | \$8,758,778 | (\$185,236) |
| Payment in Lieu of Taxes | 1,706 | 1,706 | 1,706 | 0 |
| Intergovernmental | 32,454,745 | 33,153,162 | 32,466,539 | (686,623) |
| Investment Earnings | 46,137 | 47,130 | 46,154 | (976) |
| Tuition and Fees | 1,558,709 | 1,592,252 | 1,559,275 | (32,977) |
| Extracurricular Activities | 367 | 375 | 367 | (8) |
| Rentals | 150 | 150 | 150 | 0 |
| Charges for Services | 255,456 | 260,957 | 255,549 | (5,408) |
| Miscellaneous | 6,964 | 7,150 | 6,967 | (183) |
| <i>Total Revenues</i> | 43,079,830 | 44,006,896 | 43,095,485 | (911,411) |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 22,529,724 | 22,802,682 | 22,038,384 | 764,298 |
| Special | 6,703,829 | 6,785,049 | 6,557,628 | 227,421 |
| Vocational | 216,893 | 219,521 | 212,163 | 7,358 |
| Intervention | 241,466 | 244,391 | 236,200 | 8,191 |
| Support Services: | | | | |
| Pupils | 2,778,878 | 2,812,546 | 2,718,275 | 94,271 |
| Instructional Staff | 1,040,427 | 1,053,032 | 1,017,737 | 35,295 |
| Board of Education | 124,945 | 126,459 | 122,220 | 4,239 |
| Administration | 2,845,860 | 2,880,339 | 2,783,796 | 96,543 |
| Fiscal | 685,409 | 693,713 | 670,461 | 23,252 |
| Operation and Maintenance of Plant | 3,831,518 | 3,877,938 | 3,747,958 | 129,980 |
| Pupil Transportation | 1,486,682 | 1,504,694 | 1,454,260 | 50,434 |
| Central | 395,007 | 399,792 | 386,392 | 13,400 |
| Other Non-Instructional Services | 335,975 | 340,046 | 328,648 | 11,398 |
| Extracurricular Activities | 368,525 | 372,990 | 360,488 | 12,502 |
| <i>Total Expenditures</i> | 43,585,138 | 44,113,192 | 42,634,610 | 1,478,582 |
| <i>Net Change in Fund Balance</i> | (505,308) | (106,296) | 460,875 | 567,171 |
| Fund Balance Beginning of Year | 3,364,273 | 3,364,273 | 3,364,273 | 0 |
| Prior Year Encumbrances Appropriated | 33,381 | 33,381 | 33,381 | 0 |
| <i>Fund Balance End of Year</i> | \$2,892,346 | \$3,291,358 | \$3,858,529 | \$567,171 |

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, 2017

| | |
|--|-----------------------------|
| Current Assets | |
| Cash and Cash Equivalents in Segregated Accounts | \$382,984 |
| Current Liabilities | |
| Interfund Payable | 1,100,000 |
| Claims Payable | <u>523,427</u> |
| <i>Total Current Liabilities</i> | <u>1,623,427</u> |
| Net Position | |
| Unrestricted (Deficit) | <u><u>(\$1,240,443)</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, 2017

| | |
|---|-----------------------------|
| Operating Revenues | |
| Charges for Services | <u>\$8,391,328</u> |
| Operating Expenses | |
| Purchased Services | 1,074,489 |
| Claims | <u>7,669,654</u> |
| <i>Total Operating Expenses</i> | <u>8,744,143</u> |
| <i>Operating Loss</i> | (352,815) |
| Non-Operating Revenue | |
| Investment Income | <u>34</u> |
| <i>Change in Net Position</i> | (352,781) |
| <i>Net Position (Deficit) Beginning of Year</i> | <u>(887,662)</u> |
| <i>Net Position (Deficit) End of Year</i> | <u><u>(\$1,240,443)</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, 2017

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|--|--------------------|
| Cash Received from Transactions with Other Funds | \$8,391,328 |
| Cash Payments for Services | (1,074,489) |
| Cash Payments for Claims | <u>(7,585,005)</u> |

Net Cash Used for Operating Activities (268,166)

Cash Flows from Investing Activities

| | |
|-------------------------|-----------|
| Interest on Investments | <u>34</u> |
|-------------------------|-----------|

Net Decrease in Cash and Cash Equivalents (268,132)

Cash and Cash Equivalents Beginning of Year 651,116

Cash and Cash Equivalents End of Year \$382,984

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

| | |
|----------------|-----------|
| Operating Loss | (352,815) |
|----------------|-----------|

Changes in Liabilities

| | |
|--|---------------|
| Decrease in Intergovernmental Receivable | 6,924 |
| Increase in Claims Payable | <u>77,725</u> |

Net Cash Used for Operating Activities (\$268,166)

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Statement of Assets and Liabilities

Agency Funds

June 30, 2017

Assets

Equity in Pooled Cash and Cash Equivalents \$25,634

Liabilities

Due to Students \$23,770

Due to Others 1,864

Total Liabilities \$25,634

See accompanying notes to the basic financial statements

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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 196 classified employees and 276 certificated full-time teaching personnel and administrative employees providing education to 4,298 students. The School District currently operates six 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 Zanesville City School District, this includes general operations, food service, preschool, 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, 2017

The Zanesville Community High School operates under the direction of a six-member Governing Authority made up of five 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, 956 Moxahala Avenue, Zanesville, Ohio 43701.

The School District participates in three jointly governed organizations and two insurance purchasing pools. These organizations are the Metropolitan Educational Technology Association (META), Mid-East Career and Technology Centers, Coalition of Rural and Appalachian Schools, Ohio SchoolComp Workers' Compensation Group Retrospective Rating Program, and Ohio School Benefits Cooperative (OSBC). These organizations are presented in Notes 18 and 19 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the Zanesville City 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 as follows:

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. 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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. The funds used by the School District can be classified using three categories: 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, committed, or assigned 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, 2017

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net 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.

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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 earnings, 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, represents 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. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

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 until that time. For the School District, deferred inflows of resources include property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the 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, tuition and fees, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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. Budgetary Process

All funds, other than the agency fund, 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

spend resources and set 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.

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.

F. 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.

The School District has two segregated bank accounts for self-insurance monies held separate from the School District's central bank account. These depository accounts are presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the School District's treasury.

At the end of fiscal year 2017, the School District's investments are limited to federal agency securities, which are reported at fair value based on matrix quoted market prices.

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 2017 amounted to \$1,967, which includes \$943 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

H. 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.

I. 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.

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 acquisition values as of the date received.

The School District maintains a capitalization threshold of five thousand dollars. The School District currently capitalizes land and land improvements; buildings and buildings improvements; and furniture, fixtures, equipment and vehicles. 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 capitalized.

All reported capital assets, except land and land improvements, 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 |

J. Interfund Balances

On the 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.

K. 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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.

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 as "matured compensated absences payable" in the fund from which these payments will be made.

L. 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, net pension liability, 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. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

N. 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. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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.

O. 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.

P. 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. Unclaimed monies that are required to be held for five years before they may be utilized by the School District are reported as restricted.

Q. 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.

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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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. State statute authorizes the School District Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District's Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in fiscal year 2018's appropriated budget.

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.

R. 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 scholarships not in a trust and miscellaneous local funds 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.

S. Extraordinary and Special Items

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

T. Estimates

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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

U. 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 Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Accountability

The following funds had deficit fund balances as of June 30, 2017:

| | <u>Deficit</u> |
|-------------------------------|----------------|
| Special Revenue Funds: | |
| Title I | \$35,587 |
| IDEA Part B | 983 |
| Miscellaneous Federal Grants | 5,293 |
| Miscellaneous State Grants | 5,007 |
| | |
| Internal Service Fund: | |
| Self-Insurance | 1,240,443 |

These deficits are the result of over-expended grant resources and accrued liabilities. The General Fund provides transfers to cover these 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 Balances – Budget (Non-GAAP Basis) and Actual presented 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:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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. Prepaid items, fair value adjustments for investments, and negative cash advances to other funds are reported on the balance sheet (GAAP basis), but not on the budgetary basis.
4. Encumbrances are treated as expenditures (budget) rather than committed or assigned fund balance (GAAP).
5. Budgetary revenues and expenditures of the Public School Support Fund are reclassified to the General Fund for GAAP Reporting.

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

| Net Change in Fund Balance | |
|---|-------------------------|
| GAAP Basis | (\$1,048,418) |
| Revenue Accruals | 2,041,362 |
| Expenditure Accruals | 199,384 |
| Beginning: | |
| Prepaid Items | 19,985 |
| Adjustment to fair value of investments | (89,560) |
| Negative cash advances to other funds | 252,395 |
| Ending: | |
| Prepaid Items | (21,888) |
| Adjustment to fair value of investments | (43,322) |
| Negative cash advances to other funds | (841,824) |
| To reclassify excess of revenues and other sources of financial resources over expenditures into financial statement fund types | 18,313 |
| Encumbrances | <u>(25,552)</u> |
| Budget Basis | <u><u>\$460,875</u></u> |

Note 6 - Deposits and Investments

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

Active deposits are public deposits 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

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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, \$546,255 of the School District's bank balance of \$7,401,740 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the pooled securities were held by the

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

pledging institution and 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 credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at 102 percent or a rate set by the Treasurer of State. Financial institution opting not to participate in OPCS will collateralize utilizing the specific pledge method at 105 percent.

Investments As of June 30, 2017, the School District had the following investment. All investments are in an internal investment pool.

| <u>Measurement/Investment</u> | <u>Measurement Amount</u> | <u>Maturity</u> | <u>Rating</u> | <u>Rating Agency</u> | <u>Percent of Total Investments</u> |
|-------------------------------|-------------------------------|-----------------|---------------|--------------------------|---|
| Fair Value - Level Two Input | | | | | |
| Federal Home Loan Bank Bond | \$486,585 | 7/14/2021 | AAA | Moody's | 100.00% |

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2017. Investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Note 7 - Property Taxes and Tax Abatements

A. 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 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, 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 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016, 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, 2017, are available to finance fiscal year 2017 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, 2017, 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.

At June 30, 2017, \$2,227,256 was available as an advance in the General Fund, \$447,220 in the Bond Retirement Debt Service Fund, and \$42,156 in the Classroom Facilities Maintenance Special Revenue Fund. At June 30, 2016, \$3,750,053 was available as an advance in the General Fund, \$633,714 in the Bond Retirement Debt Service Fund, and \$69,720 in the Classroom Facilities Maintenance Special Revenue Fund.

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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

The assessed values upon which the fiscal year 2017 taxes were collected are:

| | 2016 Second- Half Collections | | 2017 First- Half Collections | |
|--|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$233,335,260 | 62.30% | \$233,375,920 | 61.91% |
| Commercial/Industrial and Public Utility Real | 123,005,960 | 32.85% | 125,804,810 | 33.37% |
| Public Utility Personal | 18,157,950 | 4.85% | 17,775,840 | 4.72% |
| Total Assessed Value | <u>\$374,499,170</u> | <u>100.00%</u> | <u>\$376,956,570</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$48.95 | | \$49.80 | |

Assessed valuations increased from the prior fiscal year due to the counties' reappraisals and / or updates that went into effect for tax year 2017 (collection year 2018).

The increase in the tax rates was due to an adjustment in the emergency levy and bond levy rates. Tax rates are adjusted according to the amount to be generated for the emergency levy. Bond levy rates are adjusted based upon amounts necessary for the retirement of debt service in order to collect the fixed amount approved.

B. Tax Abatements

The School District property taxes were reduced by an Enterprise Zone Tax Exemption agreement entered into by the City of Zanesville. The amount of the fiscal year 2017 taxes abated was \$11,322.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Note 8 - Receivables

Receivables at June 30, 2017, consisted of property taxes, payment in lieu of taxes, accrued interest, accounts, intergovernmental, 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. The delinquent property taxes amounted to \$3,146,834 at fiscal year end.

A summary of principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|--|---------------------------|
| <u>Governmental Activities</u> | |
| Ohio Department of Education - Foundation Adjustment | \$142,054 |
| Food Service | 62,255 |
| Reimbursements from Other School Districts | 7,020 |
| Ohio Bureau of Workers Compensation Refund | 91,153 |
| Medicaid Reimbursements | 59,660 |
| Public Preschool Grant | 216,063 |
| Early Childhood Special Education Grant | 1,791 |
| Title VI-B Grant | 131,732 |
| Title I Grant | 1,276,404 |
| Title II-A Grant | 62,964 |
| 21st Century Grant | <u>83,525</u> |
| Total Intergovernmental Receivables | <u><u>\$2,134,621</u></u> |

Note 9 - Interfund Balances

Interfund balances at June 30, 2017, consist of the following individual fund receivables and payables:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|---|---------------------------------|------------------------------|
| Major Fund: | | |
| General Fund | <u>\$1,941,824</u> | <u>\$25,314</u> |
| Other Nonmajor Governmental Funds: | | |
| Miscellaneous State Grants | 12,401 | 183,174 |
| Title VI-B | 12,140 | 94,084 |
| Title I | 0 | 477,610 |
| Miscellaneous Federal Grants | 773 | 86,956 |
| Total Other Nonmajor Governmental Funds | <u>25,314</u> | <u>841,824</u> |
| Self Insurance Internal Service Fund | <u>0</u> | <u>1,100,000</u> |
| Total All Funds | <u><u>\$1,967,138</u></u> | <u><u>\$1,967,138</u></u> |

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Interfund balances 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.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

| | Balance June 30, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|--------------------------|----------------------|-------------------|--------------------------|
| Nondepreciable Capital Assets | | | | |
| Land | \$2,089,416 | \$0 | (\$47,657) | \$2,041,759 |
| Land Improvements | 68,107 | 0 | 0 | 68,107 |
| Total Nondepreciable Capital Assets | <u>2,157,523</u> | <u>0</u> | <u>(47,657)</u> | <u>2,109,866</u> |
| Depreciable Capital Assets | | | | |
| Buildings and Building Improvements | 88,804,888 | 0 | (338,710) | 88,466,178 |
| Improvements Other Than Buildings | 4,048,952 | 30,638 | (17,657) | 4,061,933 |
| Furniture, Fixtures, Equipment and Vehicles | 5,213,471 | 48,398 | 0 | 5,261,869 |
| Total at Estimated Historical Cost | <u>98,067,311</u> | <u>79,036</u> | <u>(356,367)</u> | <u>97,789,980</u> |
| Less Accumulated Depreciation | | | | |
| Buildings and Building Improvements | (19,531,430) | (2,561,719) | 338,710 | (21,754,439) |
| Improvements Other Than Buildings | (2,034,471) | (194,154) | 17,657 | (2,210,968) |
| Furniture, Fixtures, Equipment and Vehicles | (3,130,199) | (382,283) | 0 | (3,512,482) |
| Total Accumulated Depreciation | <u>(24,696,100)</u> | <u>(3,138,156) *</u> | <u>356,367</u> | <u>(27,477,889)</u> |
| Depreciable Capital Assets, Net of Accumulated Depreciation | <u>73,371,211</u> | <u>(3,059,120)</u> | <u>0</u> | <u>70,312,091</u> |
| Governmental Activities Capital Assets, Net | <u>\$75,528,734</u> | <u>(\$3,059,120)</u> | <u>(\$47,657)</u> | <u>\$72,421,957</u> |

During fiscal year 2017, a statue, valued at \$17,500, was donated to the School District by The Cora E. Rogge Trust. This amount is reflected within Capital Contributions on the Statement of Activities.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

* Depreciation expense was charged to governmental functions as follows:

| | |
|--|---------------------------|
| Instruction: | |
| Regular Instruction | \$2,591,342 |
| Support Services: | |
| Instructional Staff | 14,193 |
| Board of Education | 1,449 |
| Administration | 650 |
| Operation and Maintenance of Plant | 114,383 |
| Pupil Transportation | 187,830 |
| Central | 1,319 |
| Operation of Non-instructional Services: | |
| Food Service Operations | 60,880 |
| Community Services | 4,996 |
| Extracurricular Activities | <u>161,114</u> |
| Total Depreciation Expense | <u><u>\$3,138,156</u></u> |

Note 11 - Defined Benefit Pension Plans

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

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effective when the changes are legally enforceable. The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|------------------------------|---|--|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$783,425 for fiscal year 2017. Of this amount, \$170,397 is reported as an intergovernmental payable.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,198,382 for fiscal year 2017. Of this amount, \$327,551 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | |
|---|--------------------|---------------------|------------------------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.16180200% | 0.13933605% | |
| Proportion of the Net Pension Liability Current Measurement Date | <u>0.16279450%</u> | <u>0.13635153%</u> | |
| Change in Proportionate Share | <u>0.00099250%</u> | <u>-0.00298452%</u> | |
| Proportionate Share of the Net Pension Liability | \$11,915,056 | \$45,640,967 | <u>Total</u> \$57,556,023 |
| Pension Expense | \$1,382,309 | \$3,395,221 | \$4,777,530 |

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$160,706 | \$1,844,114 | \$2,004,820 |
| Changes of assumptions | 795,395 | 0 | 795,395 |
| Net difference between projected and actual earnings on pension plan investments | 982,819 | 3,789,426 | 4,772,245 |
| Changes in proportionate Share and difference between School District contributions and proportionate share of contributions | 315,172 | 554,311 | 869,483 |
| School District contributions subsequent to the measurement date | <u>783,425</u> | <u>2,198,382</u> | <u>2,981,807</u> |
| Total Deferred Outflows of Resources | <u>\$3,037,517</u> | <u>\$8,386,233</u> | <u>\$11,423,750</u> |
| Deferred Inflows of Resources | | | |
| Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions | <u>\$0</u> | <u>\$671,643</u> | <u>\$671,643</u> |

\$2,981,807 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|--------------------|--------------------|--------------------|
| 2018 | \$628,312 | \$908,819 | \$1,537,131 |
| 2019 | 627,605 | 908,820 | 1,536,425 |
| 2020 | 715,656 | 2,362,927 | 3,078,583 |
| 2021 | <u>282,519</u> | <u>1,335,642</u> | <u>1,618,161</u> |
| Total | <u>\$2,254,092</u> | <u>\$5,516,208</u> | <u>\$7,770,300</u> |

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

| | June 30, 2016 | June 30, 2015 |
|--|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| COLA or Ad Hoc COLA | 3 percent | 3 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| Cash | 1.00 % | 0.50 % |
| US Stocks | 22.50 | 4.75 |
| Non-US Stocks | 22.50 | 7.00 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 8.00 |
| Real Assets | 15.00 | 5.00 |
| Multi-Asset Strategies | 10.00 | 3.00 |
| Total | 100.00 % | |

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Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$15,774,791 | \$11,915,056 | \$8,684,296 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|---|
| Inflation | 2.75 percent |
| Salary increases | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.75 percent, net of investment expenses, including inflation |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Zanesville City School District, Ohio
Notes to the Basic Financial Statements
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| Asset Class | Target Allocation | Long-Term Expected Rate of Return * |
|----------------------|----------------------|---|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | 100.00 % | 7.61 % |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$60,653,137 | \$45,640,967 | \$32,977,317 |

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

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adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

B. 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, 2017, there are two employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$95,355.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$95,355, \$81,170, and \$40,028, respectively. For fiscal year 2017 the entire amount has been reported as intergovernmental payable. The full amount has been contributed for fiscal years 2016 and 2015.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

B. State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered 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 partial 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 discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, 2016, and 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

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 days of vacation per year, depending upon length of service. Vacation leave may be accumulated by employees up to one year's allocation, plus current year accrual. 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 280 days for certified employees and up to 284 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 70 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. Life and Vision Insurance

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

The School District provides vision insurance to employees through Vision Service Plan.

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, 2017, no teachers were due this incentive for the fiscal year.

Zanesville City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 14 - Capitalized Leases

During fiscal year 2017, the School District made the final payments on a capitalized lease for servers from Dell Computers. This lease met 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.

Note 15 - Long -Term Debt and Other Obligations

Detail of the changes in the long-term obligations of the School District for the fiscal year ended June 30, 2017, is as follows:

| | Balance June 30, 2016 | Additions | Deductions | Balance June 30, 2017 | Due in One Year |
|--|--------------------------|---------------------|----------------------|--------------------------|--------------------|
| Governmental Activities: | | | | | |
| 2015 School Bus Bonds: | | | | | |
| Serial Bonds, \$512,004 - 2.2% | \$405,774 | \$0 | (\$98,093) | \$307,681 | \$100,306 |
| 2011 School Improvement Refunding Bonds: | | | | | |
| Serial Bonds, \$16,680,000 - 2.0%-5.0% | 14,330,000 | 0 | (1,290,000) | 13,040,000 | 1,000,000 |
| Serial Bond Premium, \$806,489 | 518,459 | 0 | (57,606) | 460,853 | 0 |
| Capital Appreciation Bonds - 2.85% | 41,759 | 0 | 0 | 41,759 | 41,759 |
| Capital Appreciation Bond Accretion | 178,436 | 85,941 | 0 | 264,377 | 264,377 |
| Capital Appreciation Bond Premium, \$249,939 | 160,674 | 0 | (80,337) | 80,337 | 0 |
| Total 2011 School Improvement Refunding Bonds | <u>15,229,328</u> | <u>85,941</u> | <u>(1,427,943)</u> | <u>13,887,326</u> | <u>1,306,136</u> |
| 2012 School Improvement Refunding Bonds: | | | | | |
| Current Interest Bonds, \$10,000,000 - 2.0%-3.5% | 9,585,000 | 0 | (275,000) | 9,310,000 | 280,000 |
| Current Interest Bond Premium \$123,740 | 88,384 | 0 | (6,313) | 82,071 | 0 |
| Current Interest Bond Discount, \$145,026 | (103,590) | 0 | 7,399 | (96,191) | 0 |
| Capital Appreciation Bonds - 3.49% - 3.62% | 1,910,000 | 0 | 0 | 1,910,000 | 0 |
| Capital Appreciation Bond Accretion | 575,162 | 163,478 | 0 | 738,640 | 0 |
| Capital Appreciation Bond Premium, \$939,688 | 671,204 | 0 | (67,121) | 604,083 | 0 |
| Total 2012 School Improvement Refunding Bonds | <u>12,726,160</u> | <u>163,478</u> | <u>(341,035)</u> | <u>12,548,603</u> | <u>280,000</u> |
| Total Bonds | <u>28,361,262</u> | <u>249,419</u> | <u>(1,867,071)</u> | <u>26,743,610</u> | <u>1,686,442</u> |
| Net Pension Liability: | | | | | |
| STRS | 38,508,409 | 7,132,558 | 0 | 45,640,967 | 0 |
| SERS | 9,232,579 | 2,682,477 | 0 | 11,915,056 | 0 |
| Total Net Pension Liability | <u>47,740,988</u> | <u>9,815,035</u> | <u>0</u> | <u>57,556,023</u> | <u>0</u> |
| Capital Lease | 4,175 | 0 | (4,175) | 0 | 0 |
| Sick Leave Benefits | 1,418,104 | 206,193 | (57,429) | 1,566,868 | 2,789 |
| Total Long-Term Obligations | <u>\$77,524,529</u> | <u>\$10,270,647</u> | <u>(\$1,928,675)</u> | <u>\$85,866,501</u> | <u>\$1,689,231</u> |

Capital leases were paid from the General Fund. Sick Leave Benefits will be paid from the General Fund, the Food Service Special Revenue Fund, the Title I Special Revenue Fund, and the Title VI-B Special Revenue Fund.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: General Fund and the Food Service, Miscellaneous Local Grants, Athletic and Music, Miscellaneous State Grants, Title VI-B, Title I, and Miscellaneous Federal Grants Special Revenue Funds. For additional information related to the net pension liability, see Note 11.

On June 23, 2011, the School District issued \$16,721,759 in refunding bonds to retire \$16,722,183 of outstanding school improvement bonds. The refunded bonds were called and paid on December 1, 2012. 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 2017, \$85,941 was accreted for a total bond liability of \$306,136.

On May 16, 2012, the School District issued \$11,910,000 of School Improvement General Obligation Refunding serial and capital appreciation bonds to advance refund some of the 2002 School Facilities General Obligation Term Bonds. The 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 2002 School Improvement Refunded Bonds outstanding were called and paid in full and the escrow account was closed in December, 2013.

The 2012 capital appreciation bonds mature on December 1, 2026. 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 2017, \$163,478 was accreted for a total bond liability of \$2,648,640.

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.

On September 18, 2015, the School District issued School Bus Bonds for the purchase of six school buses, in the amount of \$512,004 at an interest rate of 2.2%. No premiums or discounts were issued with these bonds. Issuance costs associated with these bonds, in the amount of \$2,798, were invoiced by bond counsel and not a part of the bond transcripts. These costs were paid from the General Fund all expensed in the year of issuance.

Zanesville City School District, Ohio

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For the Fiscal Year Ended June 30, 2017

A summary of the School District's future long-term debt funding requirements for the School Improvement Refunding Bonds, including principal and interest payments as of June 30, 2017, follows:

| Fiscal Years | Serial/Current Interest Bonds | | Capital Appreciation Bonds | | Total | |
|-----------------|----------------------------------|--------------------|----------------------------|--------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$1,280,000 | \$1,135,804 | \$41,759 | \$308,241 | \$1,321,759 | \$1,444,045 |
| 2019 | 1,705,000 | 784,925 | 0 | 0 | 1,705,000 | 784,925 |
| 2020 | 1,795,000 | 725,550 | 0 | 0 | 1,795,000 | 725,550 |
| 2021 | 1,905,000 | 654,975 | 0 | 0 | 1,905,000 | 654,975 |
| 2022 | 2,010,000 | 580,638 | 0 | 0 | 2,010,000 | 580,638 |
| 2023-2027 | 6,785,000 | 1,668,300 | 1,910,000 | 855,000 | 8,695,000 | 2,523,300 |
| 2028-2030 | 6,870,000 | 341,751 | 0 | 0 | 6,870,000 | 341,751 |
| Totals | \$22,350,000 | \$5,891,943 | \$1,951,759 | \$1,163,241 | \$24,301,759 | \$7,055,184 |

A summary of the School District's future long-term debt funding requirements for the School Bus Bonds, including principal and interest payments as of June 30, 2017, follows:

| Fiscal Years | School Bus Bonds | |
|-----------------|------------------|-----------------|
| | Principal | Interest |
| 2018 | \$100,306 | \$6,863 |
| 2019 | 102,543 | 4,626 |
| 2020 | 104,832 | 2,337 |
| Totals | \$307,681 | \$13,826 |

The School District's overall legal debt margin at June 30, 2017, was \$12,083,838 with an unvoted debt margin of \$376,957.

Note 16 - Set-asides

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.

Zanesville City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| | Capital Improvements Reserve |
|--|------------------------------------|
| Set-aside Reserve Balance as of June 30, 2016 | \$0 |
| Current Year Set-aside Requirement | 557,164 |
| Current Year Qualifying Disbursements | (31,984) |
| Current Year Offsets | (142,594) |
| Prior Year Offset from Bond Proceeds | (382,586) |
| Total | \$0 |
| Set-aside Balance Carried Forward to Future Fiscal Years | \$0 |

The School District had qualifying expenditures and offsets during the fiscal year that reduced the capital improvements set-asides to 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.

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 2002 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 \$6,202,815.

Note 17 - 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 2017, the School District contracted with several different insurance providers for insurance coverage, as follows:

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

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| Insurance Provider | Coverage | Limit of Insurance | Deductible |
|-----------------------|--|--------------------|------------|
| Liberty Mutual | Building and Personal Property Blanket | \$108,400,403 | \$5,000 |
| Liberty Mutual | 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 | |
| Liberty Mutual | Commercial Inland Marine Coverage | 1,524,578 | 1,000 |
| Liberty Mutual | Commercial Auto Coverage: | | |
| | Liability | 1,000,000 | |
| | Auto Medical Payments | 1,000 | |
| | Uninsured Motorists | 75,000 | |
| | Comprehensive | Cash Value | 1,000 |
| | Collision | Cash Value | 1,000 |
| Liberty Mutual | Commercial Crime Coverage: | | |
| | Inside the Premises - Per occurrence | 15,000 | 500 |
| | Outside the Premises - Per messenger | 15,000 | 500 |
| | Forgery or Alteration - Per occurrence | 100,000 | 500 |
| | Employee Dishonesty - Per employee | 100,000 | 500 |
| Liberty Mutual | Commercial Umbrella Liability: | | |
| | General Aggregate Limit | 3,000,000 | |
| | Completed Operations Aggregate Limit | 3,000,000 | |
| | Each Incident Limit | 3,000,000 | |
| Auto-Owners Insurance | Flood Insurance | 500,000 | 1,250 |

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.

The School District participates in the workers' compensation program provided by the State of Ohio. The School District participates in the Ohio SchoolComp Workers' Compensation Group Retrospective Rating Program (Program), an insurance purchasing pool (Note 19). The Program is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for participants. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can either receive a premium refund or assessment. Employers will pay experience or based rated premiums under the same terms as if they were not in a retro group. The total premium for the entire group is the standard premium of the group. The standard premium serves as the benchmark that is adjusted up and down retroactively. In order to allocate the savings derived by formation of the Program, the Program's executive committee annually calculates the group-retrospective premium based on developed incurred claim losses for the whole group. The new premium is compared to the standard premium. If the retrospective premium is lower than the standard premium, a refund will be distributed to the employers of the group. If the retrospective premium is higher, an assessment will be charged to each participant.

Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Comp Management, Inc. serves as the third party administrator of the Program and provides

Zanesville City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

administrative, cost control, and actuarial services. Each year, the School District pays an enrollment fee to the Program to cover the cost of administering the Program.

The School District may withdraw from the Program if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Program prior to withdrawal.

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 \$523,427 reported in the internal service fund at June 30, 2017, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. 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 \$11,084,382 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:

| | Balance Beginning of Fiscal Year | Current Fiscal Year Claims | Claim Payments | Balance End of Fiscal Year |
|--------------------------------------|--|-------------------------------|-------------------|----------------------------------|
| 2016 | \$329,947 | \$6,759,214 | \$6,643,459 | \$445,702 |
| 2017 | 445,702 | 7,662,730 (1) | 7,585,005 | 523,427 |
| (1) Claims Expense | | \$7,669,654 | | |
| Net Decrease in Stop Loss Receivable | | (6,924) | | |
| Current Year Claims | | \$7,662,730 | | |

Note 18 - Jointly Governed Organizations

A. Metropolitan Educational Technology Association (META)

The School District participates in the Metropolitan Educational Technology Association (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META is also known as META Solutions. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During 2017, the School District paid \$109,984 for services with META. Financial information can be obtained from Metropolitan Educational Technology Association at 100 Executive Drive, Marion, Ohio 43302.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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 elected boards. The board possesses its own taxing authority. The board also exercised total control over the operations of Mid-East Career and Technology Centers including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2017, the School District made no contributions to the Center. Financial information may be obtained from Mid-East Career and Technology Centers at 400 Richards Road, Zanesville, Ohio 43701.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of nineteen members. One elected and one appointed from each of the eight regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2017, the School District made a membership payment in the amount of \$325 to CORAS. Financial information may be obtained from the Coalition of Rural and Appalachian Schools at 322 McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 19 - Insurance Purchasing Pools

A. Ohio SchoolComp Workers' Compensation Group Retrospective Rating Program

The Ohio SchoolComp Workers' Compensation Group Retrospective Rating Program (Program) is a shared risk pool among school districts in Ohio. Section 4123.29, Ohio Revised Code, permits the establishment of employer group retrospective rating plans for workers' compensation rating purposes. The Program is governed by the Ohio School Board Association (OSBA) Executive Committee that consists of seven members as follows: the president of OSBA, Immediate Past President of OSBA, and five representatives elected from the participating school districts.

The Program, a Bureau of Workers' Compensation certified sponsor, established the program based upon guidelines set forth by the Bureau of Workers' Compensation (BWC). The Program created a group of school districts that will practice effective workplace safety and claims management to achieve lower premiums for workers compensation coverage than they would individually. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can receive either a premium refund or assessment. The Program's third party administrator (TPA), Comp Management, Inc., provides administrative, cost control, and actuarial services to the Program. The cost of the TPA will be paid by each school district in proportion to its payroll to the total payroll of the group.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

The School District began participating in the program effective January 1, 2014. The School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan prior to 2014. The School District paid \$7,093 in enrollment fees to the Program as of June 30, 2017.

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 39 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 paid an initial \$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. 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 20 - Significant Commitments

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 governmental encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

| | |
|-----------------------------|------------------------|
| Governmental Funds: | |
| General Fund | \$27,351 |
| Nonmajor Governmental Funds | <u>57,612</u> |
| Total Governmental Funds | <u><u>\$84,963</u></u> |

Note 21 - Related Party Transactions

For fiscal year 2017, the School District provided \$1,061,216 to the Zanesville Community High School, a discretely presented component unit, for administrative, fiscal, and student services. As of June 30, 2017, Zanesville Community High School has repaid all but \$144,410 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, 2017

Note 22 - 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, 2017, if applicable, cannot be determined at this time.

B. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

C. Litigation

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

Note 23 - Zanesville Community High School Component Unit

A. 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.

Zanesville City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

B. Capital Assets

Capital assets for Zanesville Community High School consisted of wood-working equipment for a classroom during fiscal year 2017. Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The Zanesville Community High School maintains a capitalization threshold of five thousand dollars. Capital assets are depreciated using the straight-line method. This equipment is depreciated over ten years of useful life.

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

| | Balance | | | Balance |
|-------------------------------|-----------------|------------------|-------------|-----------------|
| | June 30, 2016 | Additions | Retirements | June 30, 2017 |
| Equipment | \$12,893 | \$0 | \$0 | \$12,893 |
| Less Accumulated Depreciation | (967) | (1,289) | 0 | (2,256) |
| Capital Assets, Net | <u>\$11,926</u> | <u>(\$1,289)</u> | <u>\$0</u> | <u>\$10,637</u> |

**Required
Supplementary
Information**

Zanesville City School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Four Fiscal Years (1) **

| | 2017 | 2016 | 2015 | 2014 |
|---|--------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.1627945% | 0.161802% | 0.152915% | 0.152915% |
| School District's Proportionate Share of the Net Pension Liability | \$11,915,056 | \$9,232,579 | \$7,738,941 | \$9,093,364 |
| School District's Covered Payroll | \$5,128,100 | \$4,881,514 | \$4,773,260 | \$4,032,436 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 232.35% | 189.13% | 162.13% | 225.51% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 69.16% | 71.70% | 65.52% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available.
An additional column will be added each fiscal year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Zanesville City School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Four Fiscal Years (1) **

| | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.13635153% | 0.13933605% | 0.13583337% | 0.13583337% |
| School District's Proportionate Share of the Net Pension Liability | \$45,640,967 | \$38,508,409 | \$33,039,376 | \$39,356,288 |
| School District's Covered Payroll | \$14,669,821 | \$14,165,900 | \$13,832,821 | \$14,157,200 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 311.12% | 271.84% | 238.85% | 277.99% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 72.10% | 74.70% | 69.30% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each fiscal year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Zanesville City School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$783,425 | \$717,934 | \$643,384 | \$625,297 |
| Contributions in Relation to the Contractually Required Contribution | <u>(783,425)</u> | <u>(717,934)</u> | <u>(643,384)</u> | <u>(625,297)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$5,595,893 | \$5,128,100 | \$4,881,514 | \$4,773,260 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 13.18% | 13.10% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$558,089 | \$561,932 | \$591,616 | \$644,807 | \$450,282 | \$441,063 |
| <u>(558,089)</u> | <u>(561,932)</u> | <u>(591,616)</u> | <u>(644,807)</u> | <u>(450,282)</u> | <u>(441,063)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,032,436 | \$4,177,929 | \$4,706,568 | \$4,762,240 | \$4,576,039 | \$4,491,474 |
| 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% |

Zanesville City School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contribution | \$2,198,382 | \$2,053,775 | \$1,983,226 | \$1,798,267 |
| Contributions in Relation to the Contractually Required Contribution | <u>(2,198,382)</u> | <u>(2,053,775)</u> | <u>(1,983,226)</u> | <u>(1,798,267)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$15,702,729 | \$14,669,821 | \$14,165,900 | \$13,832,821 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 13.00% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$1,840,436 | \$1,690,356 | \$1,897,659 | \$1,978,471 | \$1,795,192 | \$1,607,360 |
| <u>(1,840,436)</u> | <u>(1,690,356)</u> | <u>(1,897,659)</u> | <u>(1,978,471)</u> | <u>(1,795,192)</u> | <u>(1,607,360)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$14,157,200 | \$13,002,738 | \$14,597,377 | \$15,219,008 | \$13,809,169 | \$12,364,308 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

Zanesville City School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

| | Fiscal Year 2017 | Fiscal Year 2016 and Prior |
|---|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

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

Zanesville City School District
Muskingum County
956 Moxahala Avenue
Zanesville, Ohio 43701

To the Board of Education:

We have audited, in accordance with auditing standards general 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, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2017. We noted the District adopted Governmental Accounting Standards No. 77, "*Tax Abatement Disclosures*", and GASB's Implementation Guide 2016-1.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Zanesville City 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 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 a 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 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 and was not designed to identify all deficiencies in internal control 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 obtaining reasonable assurance about whether the Zanesville City 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 was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
December 5, 2017

**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Zanesville City School District
Muskingum County
956 Moxahala Avenue
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 compliance with the applicable requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could directly and materially affect each of the Zanesville City School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Zanesville City School District's major federal programs.

Management's Responsibility

The Zanesville City School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Zanesville City School District's compliance for each of the Zanesville City 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 Zanesville City School District's compliance with these 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 District's major programs. However, our audit does not provide a legal determination on the District's compliance.

Opinion

In our opinion, the Zanesville City School District complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The Zanesville City 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 Zanesville City School District's internal control over compliance with the applicable requirements that could directly and materially affect on 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 the Uniform Guidance, 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 Zanesville City School District's internal control over compliance.

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 compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Wilson, Phillips & Agin, CPA's, Inc.

Zanesville, Ohio

December 5, 2017 and April 26, 2018 for 21st Century Learning Centers

**ZANESVILLE CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
2 CFR SECTION 200.515
June 30, 2017**

1. Summary of Auditor's Results

| | | |
|--------------|--|---|
| (d)(1)(I) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other significant deficiencies In internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant deficiencies In internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under 2 CFR 200.516(a)? | No |
| (d)(1)(vii) | Major Programs: | Nutrition, CFDA #10.553, 10.555, 10.559 21 st Century, CFDA #84.287 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs: | Type A: >\$750,000; Type B: All Others |
| (d)(1)(ix) | Low Risk Auditee under v 2 CFR 200.520? | No |

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

NONE

3. Findings and Questioned Costs for Federal Awards

NONE

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ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| Federal Grantor/ Sub-Grantor Program Title | Pass Through Grantor Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements | Pass through to Subrecipients |
|--|-----------------------------------|---------------------------|-------------------------|----------------------|-------------------------|---------------------------|-------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | | | | | | |
| Pass through Ohio Department of Education | | | | | | | |
| Nutrition Cluster | | | | | | | |
| National School Breakfast Program | N/A | 10.553 | 652,636 | 29,813 | 585,569 | 29,813 | - |
| Summer Food Service Program for Children | N/A | 10.559 | 140,011 | - | 138,482 | - | - |
| National School Lunch Program | N/A | 10.555 | 1,516,260 | 69,563 | 1,360,238 | 69,563 | - |
| Total Nutrition Cluster | | | <u>2,308,907</u> | <u>99,376</u> | <u>2,084,289</u> | <u>99,376</u> | - |
| Child and Adult Care Food Program | N/A | 10.558 | 23,889 | - | 10,245 | - | - |
| Total U.S. Department of Agriculture | | | <u>2,332,796</u> | <u>99,376</u> | <u>2,094,534</u> | <u>99,376</u> | - |
| U.S. DEPARTMENT OF EDUCATION: | | | | | | | |
| Pass through Ohio Department of Education | | | | | | | |
| Title I: | | | | | | | |
| Title I Educationally Deprived Children | C1-S1-2016 | 84.010 | 605,956 | - | 500,487 | - | - |
| | C1-S1-2017 | | 1,775,242 | - | 2,252,853 | - | - |
| Total Title I | | | <u>2,381,198</u> | - | <u>2,753,340</u> | - | - |
| Special Education Cluster (IDEA): | | | | | | | |
| Title VI-B Special Education Assistance | 6B-SF-2016 | 84.027 | 69,951 | - | 10,898 | - | - |
| | 6B-SF-2017 | | 846,817 | - | 937,967 | - | - |
| Total VI-B Special Education Assistance | | | <u>916,768</u> | - | <u>948,865</u> | - | - |
| Special Education Preschool Grants | 6B-SF-2016 | 84.173 | 1,644 | - | - | - | - |
| Special Education Preschool Grants | 6B-SF-2017 | 84.173 | 18,800 | - | 20,591 | - | - |
| Total Special Education Cluster (IDEA) | | | <u>937,212</u> | - | <u>969,456</u> | - | - |
| Improving Teacher Quality | TR-S1-2016 | 84.367 | 74,604 | - | 22,042 | - | - |
| | TR-S1-2017 | | 284,572 | - | 303,019 | - | - |
| Total Improving Teacher Quality | | | <u>359,176</u> | - | <u>325,061</u> | - | - |
| Twenty-First Century Community Learning Center | 2016 | 84.287 | 155,146 | - | 130,332 | - | - |
| | 2017 | | 605,685 | - | 671,974 | - | - |
| Total Twenty-First Century Community Learning Centers | | | <u>760,831</u> | - | <u>802,306</u> | - | - |
| Total U.S. Department of Education | | | <u>4,438,417</u> | - | <u>4,850,163</u> | - | - |
| Total Federal Awards Expenditures | | | <u><u>6,771,213</u></u> | <u><u>99,376</u></u> | <u><u>6,944,697</u></u> | <u><u>99,376</u></u> | <u><u>-</u></u> |

See notes to Schedule of Federal Awards Expenditures.

**ZANESVILLE CITY SCHOOL DISTRICT
MUSKINGUM COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - GENERAL

The basis for determining when federal awards are expended is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. In addition, expenditures reported on the Schedule are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The School District has not elected to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

NOTE C - SUBRECIPIENTS

The School District passes-through certain Federal assistance received from the U.S. Department of Education to other governments or not-for-profit agencies (subrecipients). As described in Note A, the School District records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under the Uniform Guidance, the School District is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved. There were no subrecipients in the year ended June 30, 2016.

NOTES D – CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

Zanesville City School District reports commodities on the Schedule at fair value. The District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities.



Dave Yost • Auditor of State

ZANESVILLE CITY SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 14, 2018**