



**Auditor of State
Betty Montgomery**

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Zane Trace Local School District
Ross County
946 S.R. 180
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Zane Trace Local School District, Ross County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Zane Trace Local School District, Ross County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards of receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipt and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 27, 2004

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

As management of the Zane Trace Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the financial statements to enhance their understanding of the School District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- ' The assets of the Zane Trace Local School District exceeded its liabilities at June 30, 2003 by \$17,177,715. Of this amount, \$4,679,446 may be used to meet the School District's ongoing financial obligations. The remaining amount represents the difference between capital assets and related debt and net asset amounts restricted for specific purposes.
- ' The School District's net assets increased by \$344,504 during this year's operations. This represents a 2 percent increase from 2002.
- ' General revenues accounted for \$8,779,277 in revenue or 83 percent of all total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,829,558 or 17 percent of total revenues of \$10,608,835.
- ' The School District had \$10,264,331 in expenses related to governmental activities; only \$1,829,558 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily grants, entitlements and property taxes) of \$8,779,277 were used to provide for these programs.

Using the Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Zane Trace Local School District as a financial whole, an entire operating entity.

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

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2003?"

The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is 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.

These two statements report the School District's net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major 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 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 government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2003 and 2002:

(Table 1)

Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and		
Other Assets	\$11,610,212	\$11,150,248
Capital Assets	15,221,969	15,611,558
Total Assets	26,832,181	26,761,806
Liabilities		
Long-Term Liabilities	5,130,991	5,440,251
Other Liabilities	4,523,475	4,488,344
Total Liabilities	9,654,466	9,928,595
Net Assets		
Invested in Capital Assets, Net of Related	10,807,206	10,945,793
Restricted	1,691,063	1,408,987
Unrestricted	4,679,446	4,478,431
Total Net Assets	\$17,177,715	\$16,833,211

Total assets increased by \$70,375. This was primarily due to the net effect of an increase of \$341,921 in equity in pooled cash and cash equivalents and a decrease of \$389,589 in capital assets. Total liabilities decreased by \$274,129. This was primarily due to the debt payments of \$245,000 made by the School District throughout the year, as well as a decrease in compensated absences.

Invested in Capital Assets, Net of Related Debt for governmental activities decreased due to current year depreciation and principal payments exceeding the net increase of current year additions and deletions. Restricted Net Assets for governmental activities increased by \$282,076. Unrestricted Net Assets for governmental activities increased by \$201,015.

Table 2, on the following page, shows the highlights of the School District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as fees, restricted grants and interest and charges for services. General Revenues include taxes, unrestricted grants, such as state foundation support.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Since this is the first year the School District has prepared financial statements following GASB No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

(Table 2)
Change in Net Assets

	Governmental Activities <u>2003</u>
Revenues	
Program Revenues:	
Charges for Services	\$622,055
Operating Grants and Contributions	1,207,503
General Revenues:	
Property Taxes	3,990,983
Grants and Entitlements not Restricted to Specific Programs	4,572,094
Investment Earnings	179,490
Miscellaneous	<u>36,710</u>
Total Revenues	<u>10,608,835</u>
 Program Expenses	
Instruction	
Regular	4,035,439
Special	675,191
Vocational	6,379
Support Services	
Pupil	264,519
Instructional Staff	302,567
Board of Education	252,362
Administration	1,082,960
Fiscal	353,887
Operation and Maintenance of Plant	924,433
Pupil Transportation	848,964
Central	410,696
Operation of Non-Instructional Services	425,843
Extracurricular Activities	420,457
Interest and Fiscal Charges	<u>260,634</u>
Total Expenses and Transfers	<u>10,264,331</u>
 Increase in Net Assets	 <u><u>\$344,504</u></u>

Zane Trace Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

Governmental Activities

Grants and Entitlements made up 54 percent of revenues for governmental activities of Zane Trace Local School District for fiscal year 2003.

Instruction comprises 46 percent of governmental program expenses. Support services expenses make up 43 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are cost that must be covered by unrestricted state aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)

Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
	2003	2003
Instruction	\$4,717,009	\$3,941,829
Support Services	4,440,388	4,085,531
Operation of Non-Instructional Services	425,843	12,355
Extracurricular Activities	420,457	134,424
Interest and Fiscal Charges	260,634	260,634
Total Expenses	\$10,264,331	\$8,434,773

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,639,338 and expenditures of \$10,334,247. The net change in fund balance for the year was most significant in the General Fund, an increase of \$572,275.

General Fund - Budget 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 2003 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 16, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

The School District's ending unobligated cash balance in the General Fund was \$1,271,097 above the final budgeted amount.

For the General Fund, final budget basis revenue was \$7,909,659, with original budget estimates of \$8,916,151, a difference of 12 percent. This 12% difference was due primarily to grant revenues coming in lower than estimates on the original budget.

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets

At the end of fiscal year 2003 the School District had \$15,221,969 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$137,750	\$137,750
Land Improvements	42,400	41,405
Buildings and Improvements	13,706,990	13,997,557
Furnitures, Fixtures and Equipment	846,734	802,893
Vehicles	488,095	631,953
Totals	\$15,221,969	\$15,611,558

Net Capital Assets decreased from the prior year. This was primarily due to depreciation and disposals exceeding purchased improvements, furniture, fixtures and equipment and vehicles.

For more information on capital assets, refer to Note 10 in the notes to the basic financial statements.

Debt

At June 30, 2003 the School District had \$4,345,000 in bonds outstanding. \$250,000 of the bonds outstanding represent the amounts due within one year. Table 5 summarizes bonds outstanding:

(Table 5)
Outstanding Debt, at Year End

	2003	2002
General Obligation Bonds:		
1983 School Improvement Bonds	\$100,000	\$200,000
1997 School Improvement Bonds	4,245,000	4,390,000
Totals	\$4,345,000	\$4,590,000

1983 School Improvement Bonds - In 1983, the School District issued \$2,000,000 in voted general obligation bonds for the purpose of an addition and improvement to the middle school building. The bonds were issued for a twenty year period with final maturity at December 1, 2003. The bonds will be retired from the debt service fund.

Zane Trace Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

1997 School Improvement Bonds - In 1997, the School District issued \$4,990,000 in voted general obligation bonds for the construction of a new high school. The bonds were issued for a twenty-three year period with final maturity in December 2020. The bonds will be retired from the debt service fund.

The School District's overall legal debt margin was \$9,774,513 with an unvoted debt margin of \$152,042 at June 30, 2003.

For more information on debt, refer to Note 16 in the notes to the basic financial statements.

Current Issues

The Zane Trace Local School District continues to be financially stable. While this appears to be good news for the School District, school funding is still uncertain due to numerous issues. This creates a continuous challenge for the School District.

Enrollment has continued to vary slightly each year with no consistent pattern. This issue creates difficulty for the School District with staffing issues and also classroom space.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 information, contact Tammy Irwin, Treasurer at Zane Trace Local School District, 946 State Route 180, Chillicothe, Ohio 45601 or email TAMBREA Z. IRWIN @MAIL.GSN.K12.OH.US.

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ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2003

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$7,710,703
Cash and Cash Equivalents with Fiscal Agents	23,698
Materials and Supplies Inventory	18,392
Accrued Interest Receivable	3,769
Intergovernmental Receivable	88,268
Prepaid Items	36,702
Property Taxes Receivable	3,728,680
Capital Assets:	
Land	137,750
Depreciable Capital Assets, Net	15,084,219
<i>Total Assets</i>	<u>26,832,181</u>
LIABILITIES:	
Accounts Payable	1,782
Accrued Wages	721,007
Intergovernmental Payable	233,470
Accrued Interest Payable	16,471
Deferred Revenue	3,433,383
Claims Payable	117,362
Long-Term Liabilities:	
Due Within One Year	326,470
Due in More Than One Year	4,804,521
<i>Total Liabilities</i>	<u>9,654,466</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	10,807,206
Restricted for Debt Service	422,599
Restricted for Capital Projects	307,982
Restricted for Other Purposes	406,839
Restricted for Set Asides	553,643
Unrestricted	4,679,446
<i>Total Net Assets</i>	<u><u>\$17,177,715</u></u>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities			
Instruction:			
Regular	\$4,035,439	\$61,063	\$165,386
Special	675,191	0	548,731
Vocational	6,379	0	0
Support Services:			
Pupil	264,519	0	5,951
Instructional Staff	302,567	0	10,254
Board of Education	252,362	0	0
Administration	1,082,960	0	28,523
Fiscal	353,887	0	6,918
Operation and Maintenance of Plant	924,433	200	0
Pupil Transportation	848,964	0	299,761
Central	410,696	0	3,250
Operation of Non-Instructional Services	425,843	315,161	98,327
Extracurricular Activities	420,457	245,631	40,402
Interest and Fiscal Charges	260,634	0	0
<i>Total Governmental Activities</i>	\$10,264,331	\$622,055	\$1,207,503
General Revenues			
Property Taxes Levied for:			
			3,960,510
			25,808
			4,665
Grants and Entitlements not Restricted to Specific Programs			
			4,572,094
			179,490
			36,710
			8,779,277
			344,504
			16,833,211
			\$17,177,715

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
	<hr/>	<hr/>	<hr/>
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$5,912,415	\$1,208,704	\$7,121,119
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	553,643	0	553,643
Receivables:			
Taxes	3,318,032	410,648	3,728,680
Intergovernmental	0	62,566	62,566
Accrued Interest	3,769	0	3,769
Interfund	16,015	0	16,015
Prepaid Items	35,873	829	36,702
Materials and Supplies Inventory	16,200	2,192	18,392
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$9,855,947	\$1,684,939	\$11,540,886
	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities:</u>			
Accounts Payable	\$1,782	\$0	\$1,782
Accrued Wages and Benefits Payable	665,276	55,731	721,007
Intergovernmental Payable	136,939	8,551	145,490
Interfund Payable	0	16,015	16,015
Deferred Revenue	3,088,407	391,405	3,479,812
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	3,892,404	471,702	4,364,106
	<hr/>	<hr/>	<hr/>
<u>Fund Balances:</u>			
Reserved for Encumbrances	887,006	120,819	1,007,825
Reserved for Property Taxes	229,625	30,473	260,098
Reserved for Textbooks and Instructional Materials	198,334	0	198,334
Reserved for Capital Improvements	332,249	0	332,249
Reserved for Budget Stabilization	23,060	0	23,060
Unreserved, Undesignated, Reported in:			
General Fund	4,293,269	0	4,293,269
Special Revenue Funds	0	352,338	352,338
Debt Service Fund	0	409,931	409,931
Capital Projects Funds	0	299,676	299,676
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	5,963,543	1,213,237	7,176,780
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	\$9,855,947	\$1,684,939	\$11,540,886
	<hr/>	<hr/>	<hr/>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$7,176,780

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	137,750	
Other capital assets	17,826,888	
Accumulated depreciation	(2,742,669)	
Total capital assets	15,221,969	15,221,969

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	35,199	
Intergovernmental	11,230	
	46,429	46,429

The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets (32,021)

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (87,980)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(4,345,000)	
Accrued interest on bonds	(16,471)	
Capital leases	(69,763)	
Compensated absences	(716,228)	
Total liabilities	(5,147,462)	(5,147,462)

Net Assets of Governmental Activities \$17,177,715

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$3,563,081	\$422,863	\$3,985,944
Intergovernmental	5,125,291	614,160	5,739,451
Interest	173,219	6,271	179,490
Tuition and Fees	48,691	0	48,691
Extracurricular Activities	35,207	251,897	287,104
Rentals	200	0	200
Customer Sales and Service	12,372	315,161	327,533
Contributions and Donations	0	13,637	13,637
Miscellaneous	18,904	38,384	57,288
Total Revenues	8,976,965	1,662,373	10,639,338
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	3,870,333	174,994	4,045,327
Special	440,971	222,648	663,619
Vocational	6,379	0	6,379
Support Services:			
Pupils	251,481	7,093	258,574
Instructional Staff	276,942	9,442	286,384
Board of Education	250,648	0	250,648
Administration	1,050,618	31,589	1,082,207
Fiscal	335,664	15,316	350,980
Operation and Maintenance of Plant	817,594	56,941	874,535
Pupil Transportation	708,573	0	708,573
Central	229,801	77,466	307,267
Operation of Non-Instructional Services	0	403,137	403,137
Extracurricular Activities	149,782	256,312	406,094
Capital Outlay	0	161,348	161,348
Debt Service:			
Principal Retirement	12,824	255,132	267,956
Interest and Fiscal Charges	3,080	258,139	261,219
Total Expenditures	8,404,690	1,929,557	10,334,247
Excess of Revenues Over (Under) Expenditures	572,275	(267,184)	305,091
<u>Other Financing Sources:</u>			
Inception of Capital Lease	0	36,288	36,288
Net Change in Fund Balances	572,275	(230,896)	341,379
Fund Balances Beginning of Year - Restated Note 3	5,391,268	1,444,133	6,835,401
Fund Balances End of Year	\$5,963,543	\$1,213,237	\$7,176,780

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$341,379

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	364,747	
Depreciation expense	(715,848)	
Excess of capital outlay over depreciation expense		(351,101)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Loss on disposal of capital assets		(38,488)
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Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	5,039	
Intergovernmental	(35,542)	
		(30,503)

The internal service fund used by management to charge the cost of insurance to individual funds is reported in the entity wide statements of activities. 129,100

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (36,288)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond payments	245,000	
Capital lease payments	42,290	
Total long-term debt repayment		287,290

Some items 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. These activities consist of:

Decrease in compensated absences payable	58,258	
Decrease in accrued interest payable	585	
Increase in intergovernmental payable	(15,728)	
Total (increase)/decrease		43,115

Change in Net Assets of Governmental Activities \$344,504

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Non GAAP-Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003

	Budget Amounts			Variance With Final Budget Over/(Under)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and Other Local Taxes	3,594,324	\$3,534,700	\$3,534,700	\$0
Intergovernmental	5,033,562	4,137,592	5,125,291	987,699
Interest	175,360	144,146	178,555	34,409
Tuition and Fees	47,817	39,306	48,689	9,383
Rent	196	161	200	39
Extracurricular Activities	34,577	28,422	35,207	6,785
Customer Services	12,154	9,991	12,372	2,381
Miscellaneous	18,159	14,927	18,490	3,563
<i>Total Revenues</i>	<u>8,916,150</u>	<u>7,909,245</u>	<u>8,953,504</u>	<u>1,044,259</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,776,795	4,172,289	4,056,016	116,273
Special	441,511	448,540	426,687	21,853
Vocational	6,850	6,380	6,379	1
Other	476,500	481,106	481,106	0
Support Services:				
Pupils	229,234	265,494	253,502	11,992
Instructional Staff	251,725	289,706	282,208	7,498
Board of Education	295,975	268,121	261,200	6,921
Administration	528,059	599,036	596,048	2,988
Fiscal	286,835	351,468	351,450	18
Operation and Maintenance of Plant	891,835	1,366,207	1,339,654	26,553
Pupil Transportation	620,128	784,971	771,909	13,062
Central	75,327	278,751	259,074	19,677
Extracurricular Activities	123,281	150,362	150,360	2
<i>Total Expenditures</i>	<u>8,004,055</u>	<u>9,462,431</u>	<u>9,235,593</u>	<u>226,838</u>
Excess of Revenues Over (Under) Expenditures	<u>912,095</u>	<u>(1,553,186)</u>	<u>(282,089)</u>	<u>1,271,097</u>
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	0	414	414	0
Operating Transfers In	(461,307)	0	0	0
<i>Total Other Financing Sources</i>	<u>(461,307)</u>	<u>414</u>	<u>414</u>	<u>0</u>
Net Change in Fund Balance	450,788	(1,552,772)	(281,675)	1,271,097
Fund Balances at Beginning of Year	5,610,316	5,610,316	5,610,316	0
Prior Year Encumbrances Appropriated	250,247	250,247	250,247	0
Fund Balances at End of Year	<u>\$6,311,351</u>	<u>\$4,307,791</u>	<u>\$5,578,888</u>	<u>\$1,271,097</u>

See accompanying notes to the basic financial statements

Zane Trace Local School District
Statement of Net Assets
Internal Service
June 30, 2003

	Self-Insurance
Assets	
Equity in Pooled Cash and Cash Equivalents	\$35,941
Cash and Cash Equivalents With Fiscal Agent	23,698
Receivables:	
Intergovernmental	25,702
<i>Total Assets</i>	\$85,341
Liabilities	
Claims Payable	\$117,362
Net Assets	
Unrestricted (Deficit)	(\$32,021)

See accompanying notes to the basic financial statements

Zane Trace Local School District
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2003

	<u>Self-Insurance</u>
Operating Revenues:	
Charges for Services	\$1,006,538
Operating Expenses:	
Purchased Services	125,296
Claims	752,142
<i>Total Expenses</i>	877,438
<i>Change in Net Assets</i>	129,100
<i>Net Assets Beginning of Year</i>	(161,121)
<i>Net Assets End of Year</i>	(\$32,021)

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

	Self-Insurance
Cash Received from Quasi-External Transactions with Other Funds	\$1,006,538
Cash Payments to Suppliers for Goods and Services	(125,296)
Cash Payments for Claims	(816,678)
Net Cash Provided by Operating Activities	64,564

Cash Flows from Noncapital Financing Activities:

Short-Term Loans to Other Governments	(25,702)
Payments Received from Other Governments	7,195
Net Cash Used for Noncapital Financing Activities	(18,507)
Net Increase in Cash and Cash Equivalents	46,057
Cash and Cash Equivalents at Beginning of Year	13,582
Cash and Cash Equivalents at End of Year	\$59,639

Reconciliation of Net Income to Net

Cash Provided by Operating Activities:

Operating Income	\$129,100
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Adjustments to Reconcile Net Income to

Net Cash Provided by Operating Activities:

Changes in Assets and Liabilities:	
Decrease in Claims Payable	(64,536)
Net Cash Provided by Operating Activities	\$64,564

See accompanying notes to the general purpose financial statements

Zane Trace Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$16,796</u></u>
Liabilities	
Undistributed Monies	<u><u>\$16,796</u></u>

See accompanying notes to the basic financial statements

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ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Zane Trace Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1965 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 104 square miles. It is located in Ross County, and includes all of the Village of Kingston and portions of Green North, Green South, Springfield, and Colerain Townships. It is staffed by 48 non-certificated employees, 83 certificated full-time teaching personnel and 4 administrative employees who provide services to 1,528 students and other community members. The School District currently operates one instructional building.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements 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 Zane Trace Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in five organizations, three of which are defined as jointly governed organizations, one as a claims servicing pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross County Joint Vocational School, the Great Seal Education Network of Tomorrow, the Ross County School Employees Insurance Consortium, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 is the School District's major governmental fund:

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund

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

Internal Service Fund – The internal service fund is used to account for the medical, surgical, and dental benefits provided to employees.

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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 an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available for advance, certain grants and accrued interest.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

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

The School District participates in a claims servicing pool that pays employee health insurance claims on the School District's behalf. The balance of the School District's funds held by the claims administrator and the fiscal agent at June 30, 2003, is presented as "Cash and Cash Equivalents with Fiscal Agents" on the balance sheet and represents deposits.

During fiscal year 2003, investments were limited to Certificates of Deposit, which are reported at cost.

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 2003 amounted to \$173,219.

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 equity in pooled cash and cash equivalents.

F. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories consist of purchased food held for resale and consumable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets except land 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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 - 10 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	10 years

I. 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 School District records a liability for accumulated unused vacation time when earned for all employees with more than one year 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 rates at 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 employees after fifteen years of service with the School District.

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

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund is reported on the fund 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, compensated absences, special termination benefits and contractually required pension contributions 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 in the current year. Bonds and capital leases that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants to expenditures for specified purposes.

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 fund. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

M. 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.

N. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board 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 School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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

O. Restricted Assets

Assets are reported as restricted 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 governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent cash and cash equivalents legally required to be set-aside by the School District for the purchase of textbooks and instructional materials, and for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money allowed to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

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

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules – Prespective Differences,” and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38. Also, GASB Statement No. 41 was not applicable to the School District for fiscal year 2003.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements present the governmental type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability for compensated absences that were not mature as of June 30, 2002.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

(Continued)

B. Restatement of Fund Balances

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2002	\$5,361,298	\$1,444,133	\$6,805,431
Interpretation No. 6 Adjustments	29,970	0	29,970
Adjusted Fund Balance, June 30, 2002	<u>\$5,391,268</u>	<u>\$1,444,133</u>	6,835,401
GASB No. 34 Adjustments:			
Deferred Assets:			
Intergovernmental Receivables			28,757
Delinquent Property Taxes			30,160
Capital Assets			15,611,558
Intergovernmental Payable			(54,237)
Accrued Interest Payable			(17,056)
Long-Term Liabilities:			
Bonds Payable			(4,590,000)
Capital Leases			(75,765)
Compensated Absences			<u>(774,486)</u>
Governmental Activities Net			
Assets, June 30, 2002			16,994,332
Internal Balance			<u>(161,121)</u>
Adjusted Governmental Activities Net			
Assets, June 30, 2002			<u>\$16,833,211</u>

NOTE 4 - ACCOUNTABILITY

At June 30, 2003, the Chapter II Special Revenue Fund and the Internal Service Fund had a deficit fund balances of \$2,053 and \$32,021, respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur. The School District is currently monitoring user charges to see if an increase in rates in the Internal Service Fund is necessary.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

ZANE TRACE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The major differences between the budget basis and GAAP basis are that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

Net Change in Fund Balance	
	General
GAAP Basis	\$572,275
Adjustments:	
Revenue Accruals	(18,291)
Expenditure Accruals	56,102
Encumbrances	(887,005)
Unrecorded Cash	(4,756)
Budget Basis	(\$281,675)

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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 accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (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;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$7,751,197, and the bank balance was \$7,740,946. Of the bank balance, \$200,000 was covered by federal depository insurance and \$7,540,946 was uninsured, but is collateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State 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 Federal Deposit Insurance Corporation.

Investments: The School District had no investments at June 30, 2003.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 - PROPERTY TAXES (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$229,625 in the general fund, \$25,808 in the debt service fund, and \$4,665 in the classroom facilities special revenue fund. The amount available as an advance at June 30, 2002, was \$196,651 in the general fund, \$22,497 in the debt service fund, and \$4,058 in the classroom facilities special revenue fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$114,544,040	74.62%	\$115,238,990	75.79%
Public Utility	9,728,030	6.34%	10,659,210	7.01%
Tangible Personal Property	29,224,480	19.04%	26,143,730	17.20%
Total Assessed Value	<u>\$153,496,550</u>	<u>100.00%</u>	<u>\$152,041,930</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.00		\$33.00	

NOTE 8 - INCOME TAX

In prior years, the School District levied a voted tax of .50 percent for general operations on the income of residents and of estates. The tax was effective January 1, 1996, and continued for five years. The levy was not renewed at the end of the fifth year. Taxes receivable for fiscal year 2003 consists only of delinquent taxes. Income tax revenue is credited to the General Fund.

NOTE 9 - RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, intergovernmental grants, accrued interest, and interfund amounts. The Self-Insurance Internal Service Fund intergovernmental receivables consist of claims payments made on behalf of other members of the Ross County Insurance Consortium using surplus monies of the School District. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, and the stable condition of state programs, and the current fiscal year guarantee of federal funds.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

A summary of the principal items of the intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Title VI-B	\$14,590
Title I	18,659
Title V	3,559
Drug Free School	3,722
Title VI	<u>22,036</u>
Total Governmental Activities	<u>62,566</u>
Internal Service Fund	<u>25,702</u>
Total Intergovernmental Receivable	<u><u>\$88,268</u></u>

NOTE 10 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2003 follows:

	<u>Restated Balance At 6/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance At 6/30/2003</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	<u>\$137,750</u>	<u>\$0</u>	<u>\$0</u>	<u>\$137,750</u>
Total Capital Assets Not Being Depreciated	<u>137,750</u>	<u>0</u>	<u>0</u>	<u>137,750</u>
Depreciable Capital Assets:				
Land Improvements	81,179	2,780	4,342	79,617
Buildings and Improvements	15,048,215	39,605	30,376	15,057,444
Furniture, Fixtures and Equipment	1,301,047	322,362	157,415	1,465,994
Vehicles	<u>1,223,833</u>	<u>0</u>	<u>0</u>	<u>1,223,833</u>
Total Depreciable Capital Assets	<u>17,654,274</u>	<u>364,747</u>	<u>192,133</u>	<u>17,826,888</u>
Total Capital Assets At Historical Cost	<u>17,792,024</u>	<u>364,747</u>	<u>192,133</u>	<u>17,964,638</u>
Less Accumulated Depreciation:				
Land Improvements	(39,774)	(1,785)	(4,342)	(37,217)
Buildings and Improvements	(1,050,658)	(309,454)	(9,658)	(1,350,454)
Furniture, Fixtures and Equipment	(498,154)	(260,751)	(139,645)	(619,260)
Vehicles	<u>(591,880)</u>	<u>(143,858)</u>	<u>0</u>	<u>(735,738)</u>
Total Accumulated Depreciation	<u>(2,180,466)</u>	<u>(715,848) *</u>	<u>(153,645)</u>	<u>(2,742,669)</u>
Depreciable Capital Assets, Net	<u>15,473,808</u>	<u>(351,101)</u>	<u>38,488</u>	<u>15,084,219</u>
Governmental Activities Capital Assets, Net	<u><u>\$15,611,558</u></u>	<u><u>(\$351,101)</u></u>	<u><u>\$38,488</u></u>	<u><u>\$15,221,969</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$156,388
Special Instruction	17,887
Support Services:	
Pupils	9,089
Instructional Staff	21,113
Board of Education	1,587
Administration	28,385
Fiscal	9,489
Operation and Maintenance	49,019
Pupil Transportation	188,805
Central	189,226
Non-Instructional Services	28,020
Extracurricular Activities	16,840
Total Depreciation	<u>\$715,848</u>

NOTE 11 - 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; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Nationwide Insurance for general liability and fleet insurance, Indiana Insurance for property insurance, and Sharrer Weddleton Insurance for boiler and machinery coverage. Insurance coverage provided includes the following:

Building and Contents (\$1,000 deductible)	\$9,677,826
Boiler and Machinery (\$1,000 deductible)	No Limit
Automobile Liability (\$100 deductible)	2,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - RISK MANAGEMENT (Continued)

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool, consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$117,362 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," 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. Changes in claims activity for the fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2002	\$248,267	\$1,304,502	\$1,370,871	\$181,898
2003	\$181,898	752,142	816,678	\$117,362

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$121,413, \$62,890 and \$32,769 respectively; 55.45 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2003, 2002, and 2001 were \$537,875, \$346,948, and \$312,932 respectively; 85.23 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$6,572 made by the School District and \$14,294 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$41,375 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$106,603.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit of sick leave accumulation for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 60 days for all employees.

B. Special Termination Benefits

The School District offered an Early Retirement Incentive program to all certified employees who were eligible to retire from SERS. This incentive was offered through June 30, 2003. The employee who takes advantage of this program in the first year of eligibility may receive a payment of \$4,360. An eligible employee who elects to forego the retirement incentive in the first year that the employee is eligible will have waived any opportunity to receive a retirement incentive. In fiscal year 2003, four employees received a payment for the retirement incentive totaling \$17,440.

The School District also offers an Early Notice of Retirement Incentive program to all employees who are eligible to retire from either SERS or STRS. The employees who give written notice of the intended retirement date on or before March 1st of the year in which they intend to retire will be paid \$1,000 in their last paycheck.

No liability for the special termination benefits existed at fiscal year-end.

C. Life Insurance

The School District provides life insurance to most employees through Safeco.

D. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal year 2003, and in prior years, the School District has entered into capitalized leases for furniture, fixtures and equipment, and for vehicles. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of furniture, fixtures and equipment, and vehicles have been capitalized in the amount of \$102,416. This amount represents the present value of the minimum lease payments at the time of acquisition. During fiscal year 2003, the School District entered into two new leases. One lease was entered into prior to the full retirement of the old lease. Therefore, the balance of \$19,334 remaining on the old lease was eliminated on the financial statements upon entering into the new lease. Principal payments in fiscal year 2003 totaled \$22,956 in the governmental funds.

The assets acquired through capital lease as of June 30, 2003, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$85,782	\$25,841	\$59,941
Vehicle	16,634	9,980	6,654
Total Lease Assets	<u>\$102,416</u>	<u>\$35,821</u>	<u>\$66,595</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	Total Payments
2004	\$24,855
2005	22,835
2006	18,234
2007	10,327
2008	3,636
Total	79,887
Less: Amount Representing Interest	(10,124)
Present Value of Net Minimum Lease Payments	<u>\$69,763</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Restated Amount Outstanding 6/30/2002	Additions	Deductions	Amount Outstanding 6/30/2003	Due Within One Year
<u>General Obligation Bonds:</u>					
1983 School Improvement Bonds, 9.375% \$2,000,000	\$200,000	\$0	\$100,000	\$100,000	\$100,000
1997 School Improvement Bonds, 3.60% - 5.45% \$4,990,000	4,390,000	0	145,000	4,245,000	150,000
Total General Obligation Bonds	4,590,000	0	245,000	4,345,000	250,000
<u>Other Long-Term Obligations:</u>					
Capital Leases	75,765	36,288	42,290	69,763	20,219
Compensated Absences	774,486	18,996	77,254	716,228	56,251
Total Long-Term Obligations	<u>\$5,440,251</u>	<u>\$55,284</u>	<u>\$364,544</u>	<u>\$5,130,991</u>	<u>\$326,470</u>

Annual debt service requirements to maturity for general long-term obligations are:

Year	Governmental Activities					
	1983 School Improvement		1997 School Improvement		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$100,000	\$4,687	\$150,000	\$234,818	\$250,000	\$239,505
2005	0	0	160,000	227,762	160,000	227,762
2006	0	0	165,000	220,205	165,000	220,205
2007	0	0	175,000	212,129	175,000	212,129
2008	0	0	190,000	200,850	190,000	200,850
2009 - 2013	0	0	1,145,000	788,604	1,145,000	788,604
2014 - 2018	0	0	1,540,000	413,929	1,540,000	413,929
2019 - 2020	0	0	720,000	39,513	720,000	39,513
Totals	<u>\$100,000</u>	<u>\$4,687</u>	<u>\$4,245,000</u>	<u>\$2,337,810</u>	<u>\$4,345,000</u>	<u>\$2,342,497</u>

1983 School Improvement Bonds - In 1983, the School District issued \$2,000,000 in voted general obligation bonds for the purpose of an addition and improvement to the middle school building. The bonds were issued for a twenty year period with final maturity at December 1, 2003. The bonds will be retired from the debt service fund.

1997 School Improvement Bonds - In 1997, the School District issued \$4,990,000 in voted general obligation bonds for the construction of a new high school. The bonds were issued for a twenty-three year period with final maturity in December 2020. The bonds will be retired from the debt service fund.

Capital leases will be paid from the General Fund and Public School Support Special Revenue Fund. Compensated absences will be paid from the General Fund, Food Service, Title VI-B, Chapter I, and Title VI-R Special Revenue Funds.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

The School District's overall legal debt margin was \$9,774,513 with an unvoted debt margin of \$152,042 at June 30, 2003.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$29,300 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Pickaway-Ross County Joint Vocational School - The Pickaway-Ross County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross County Joint Vocational School, Ben Van Horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Network of Tomorrow is a regional council of governments (the "Council") consisting of twelve city, local and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members. The Council possesses its own budgeting and taxing authority. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

NOTE 18 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

Ross County School Employees Insurance Consortium - The School District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of sixteen school districts within Ross County and its surrounding area. Medical/surgical and dental insurance is administered through a third party administrator, Klais and Company. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 18 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS (Continued)

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

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For the fiscal year ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes. This amount is shown as Reserved for Budget Stabilization on the balance sheet in the amount of \$23,060.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	\$145,812	\$241,137	\$23,060
Current Year Set-aside Requirement	203,797	203,797	0
Current Year Offsets	0	(71,736)	0
Qualifying Disbursements	<u>(151,275)</u>	<u>(40,949)</u>	<u>0</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$198,334</u>	<u>\$332,249</u>	<u>\$23,060</u>

The total reserve balance for the set-asides at the end of the fiscal year was \$553,643.

NOTE 20 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003, consist of the following individual interfund receivables and payables:

Receivables	Payable
	Nonmajor Governmental Fund
General	<u>\$16,015</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 21 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

NOTE 22 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The School District is not party to any legal proceedings.

ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Number	Federal C.F.D.A. Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster</i>						
Food Donation (See Note "B")	N/A	10.550	\$ -	\$ 20,165	\$ -	\$ 20,165
National School Breakfast Program	05-PU 2002& 05-PU 2003	10.553	14,128	0	14,128	0
National School Lunch Program	LL-P4 2003 & LL-P4-2002	10.555	58,778	0	58,778	0
TOTAL U.S. DEPARTMENT OF AGRICULTURE- NUTRITION CLUSTER			<u>72,906</u>	<u>20,165</u>	<u>72,906</u>	<u>20,165</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	C1-S1 2002 & C1-S1-2003	84.010	116,952	0	124,164	0
Special Education Grants to States	6B-SF 02 & 6B-SF 03	84.027	142,195	0	117,563	0
Safe and Drug Free Schools and Communities	DR-S1 2001 & DR-S1 2002 & DR-S1 200	84.186	9,861	0	8,437	0
Continuous Improvement	G2-S1 2001	84.276	11,019	0	17,670	0
Eisenhower Professional Development State Grants	MS-S1-2002	84.281	859	0	2,550	0
Innovative Educational Program Strategies	C2-S1 2002 & C2-S1 2003	84.298	5,205	0	12,337	0
Education Technology State Grant	TJ-S1 2003	84.318	3,710	0	2,764	0
Class Size Reduction	CR-S1 2002	84.340	17,979	0	17,839	0
School Renovation Grants	AT S2 2001	84.352	19,551	0	19,551	0
Improving Teacher Quality State Grants	TR S1 2003	84.367	36,366	0	36,366	0
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>363,697</u>	<u>-</u>	<u>359,241</u>	<u>-</u>
Total Federal Financial Assistance Awards			<u>\$ 436,603</u>	<u>\$ 20,165</u>	<u>\$ 432,147</u>	<u>\$ 20,165</u>

The accompanying notes to this schedule are an integral part of this schedule

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B- FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Zane Trace Local School District
Ross County
946 S.R. 180
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the basic financial statements of the Zane Trace Local School District, Ross County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 27, 2004, wherein we noted the District implemented a new financial reporting model, as required by the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 27, 2004.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 27, 2004



**Auditor of State
Betty Montgomery**

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

Zane Trace Local School District
Ross County
946 S.R. 180
Chillicothe, Ohio 45601

To the Board of Education:

Compliance

We have audited the compliance of Zane Trace Local School District, Ross County, Ohio, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 27, 2004

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grant to Local Educational Agencies: CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2003-001
-----------------------	-----------------

Student Activities - Accountability

The Board of Education, by policy, has authorized the District Treasurer to establish accounting procedures and policies to govern the financial activities of student activities. The Treasurer provided the "Student Activity Procedures" fact sheet to every advisor at the annual information session. Several student activity advisors did not perform specific procedures outlined in the Student Activity Procedures fact sheet. The following procedures were not performed:

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003
(Continued)**

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

Finding Number	2003-001
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Student Activities – Accountability (Continued)

Duplicate receipts were not always used to record money received for club dues, activity fees and fund raiser receipts turned in by students to the activity advisors.

Subsidiary records maintained were often incomplete and inaccurate, and therefore could not fully document the receipts or expenditures of the activity or fees collected. Adequate documentation did not exist to account for uncollected student membership dues and unaccounted for fundraiser inventory.

Sales Potential Forms were not completed for every fund raiser conducted by the various student activities within the District. In those cases where sales potential forms were completed, there was no evidence the supervisor reviewed the forms prior to or subsequent to the event's completion. As a result, the supervisor was unaware if monies were not collected, or if a participating student did not return monies collected for merchandise delivered.

The activity advisors should follow the procedures outlined in the "Student Activity Procedures" fact sheet. Failure to implement these internal control procedures and maintain complete and accurate financial records could result in the misappropriation of activity resources. Therefore, we recommend the following:

Advisors should issue duplicate receipts for all collections received.

Advisors should keep an updated list of uncollected fees, dues and fundraiser proceeds.

Advisors should prepare an accurate and complete sales potential form for every event. The supervisor should review the form prior to and after the event. Such review should ensure all monies due are collected, and recorded with the District Treasurer. Any uncollected monies should be identified and subjected to the collection procedures established by the District Treasurer, or an explanation should be provided by the advisor for the discrepancy in expected and actual collections.

Advisors should maintain subsidiary records to document the event's financial activity.

Advisors should provide adequate safeguarding and distribution of all fundraiser inventory received to avoid potential theft of or incorrect distribution of the ordered fundraiser products.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
(Continued)**

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

Finding Number	2003-002
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Expenditures exceeding Appropriations

Ohio Rev. Code Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated. At September 4, 2002, expenditures exceeded appropriations in the following funds:

Fund	Expenditures	Appropriations	\$Variance	% Variance
516 Title VI-B	\$51,330	\$31,241	\$20,059	39%
572 Title I	\$24,537	\$ 7,554	\$16,983	69%
590 Reducing Class Size	\$ 2,005	\$ 181	\$ 1,824	91%

This could result in the District expending more funds than it has available.

We recommend the District ensure funds are lawfully appropriated prior to making an expenditure or purchase commitment.

3. FINDINGS FOR FEDERAL AWARDS

None

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10771-001	Ohio Rev. Code Section 5705.41(B), Expenditures in excess of Appropriations	No	Repeated as finding 2003-002
2002-10771-002	Student Activities – Accountability Internal Control Recommendation	No	Repeated as finding 2003-001



**Auditor of State
Betty Montgomery**

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ZANE TRACE LOCAL SCHOOL DISTRICT

ROSS 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
APRIL 6, 2004**