



**Auditor of State
Betty Montgomery**

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund.....	17
Statement of Fund Net Assets – Internal Service Fund.....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets –Internal Service Fund	19
Statement of Cash Flows – Internal Service Fund	20
Statement of Fiduciary Assets and Liabilities – Agency Funds	21
Notes to the Basic Financial Statements	23
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Schedule of Findings	51
Schedule of Prior Findings	52

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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, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 31, 2005

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic 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 Governments," issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- The assets of the Zane Trace Local School District exceeded its liabilities at June 30, 2004 by \$17,239,953. Of this amount, \$5,063,385 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 \$62,238 during this year's operations. This represents a .4 percent increase from 2003.
- General revenues accounted for \$9,768,629 in revenue or 85 percent of all total revenues. Program specific revenues in the form of charges for services, grants and contributions and interest accounted for \$1,715,326 or 15 percent of total revenues of \$11,483,955.
- The School District had \$11,421,717 in expenses related to governmental activities; only \$1,715,326 of these expenses were offset by program specific charges for services, grants and contributions and interest. General revenues (primarily grants, entitlements and property taxes) of \$9,768,629 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
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

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 2004?”

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 8. 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.

Proprietary Fund – Proprietary funds use the same basis of accounting as business-type activities. The internal service fund is used to report activities that provide services to the School District's other funds and departments.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Fiduciary Funds – The School District’s only fiduciary fund is an agency fund. The School District’s fiduciary fund is reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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 2004 and 2003:

(Table 1)

Net Assets

Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$11,679,693	\$11,610,212
Capital Assets	15,264,929	15,221,969
Total Assets	26,944,622	26,832,181
Liabilities		
Long-Term Liabilities	4,811,777	5,130,991
Other Liabilities	4,892,892	4,523,475
Total Liabilities	9,704,669	9,654,466
Net Assets		
Invested in Capital Assets, Net of Related Debt	11,120,384	10,807,206
Restricted	1,056,184	1,691,063
Unrestricted	5,063,385	4,679,446
Total Net Assets	\$17,239,953	\$17,177,715

Total assets increased by \$112,441. This was primarily due to an increase of \$109,443 in property taxes receivable due to the expiration of two tax abatements. Total liabilities increased by \$50,203. This was primarily due to an increase in accounts payable due to the timing of when payments were made.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Invested in Capital Assets, Net of Related Debt for governmental activities increased \$313,178 due to current year additions and principal payments exceeding depreciation. Restricted Net Assets for governmental activities decreased by \$634,879. Unrestricted Net Assets for governmental activities increased by \$383,939.

Table 2 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 and 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.

(Table 2)
Change in Net Assets
Governmental Activities

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$724,077	\$622,055
Operating Grants, Contributions, and Interest	953,299	1,207,503
Capital Grants and Contributions	37,950	0
Total Program Revenues	1,715,326	1,829,558
General Revenues:		
Property Taxes	4,004,613	3,990,983
Income Taxes	3,812	0
Grants and Entitlements not Restricted to Specific Programs	5,620,912	4,572,094
Investment Earnings	109,125	179,490
Miscellaneous	30,167	36,710
Total General Revenues	9,768,629	8,779,277
Total Revenues	\$11,483,955	\$10,608,835

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

UNAUDITED
(Continued)

	2004	2003
Program Expenses		
Instruction:		
Regular	4,868,009	4,035,439
Special	796,169	675,191
Vocational	8,612	6,379
Support Services:		
Pupils	279,055	264,519
Instructional Staff	394,211	302,567
Board of Education	153,885	252,362
Administration	1,094,091	1,082,960
Fiscal	340,480	353,887
Operation and Maintenance of Plant	1,238,490	924,433
Pupil Transportation	738,639	848,964
Central	348,725	410,696
Operation of Non-Instructional Services	493,620	425,843
Extracurricular Activities	420,773	420,457
Interest and Fiscal Charges	246,958	260,634
Total Expenses	11,421,717	10,264,331
Increase in Net Assets	\$62,238	\$344,504

Grants and Entitlements made up 49 percent of revenues for governmental activities of Zane Trace Local School District for fiscal year 2004.

Instruction comprises 50 percent of governmental program expenses. Support services expenses make up 40 percent of governmental expenses.

The increase in regular instruction is due to the addition of all day kindergarten, an increase in staff and an increase in wages and benefits. The increase in special instruction and support service instructional staff is due to an increase in staff and wages and benefits. The board of education decrease is due to two board members electing not to receive pay and a decrease in legal fees. Operation and maintenance of plant increased due to an increase in utility expenses. Pupil transportation decreased due to the retirement of five experienced bus drivers being replaced with less experienced bus drivers.

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 costs 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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

(Table 3)

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2004	2003	2004	2003
Instruction	\$5,672,790	\$4,717,009	\$4,765,042	\$3,941,829
Support Services	4,587,576	4,440,388	4,537,363	4,085,531
Operation of Non-Instructional Services (Food Services)	493,620	425,843	45,641	12,355
Extracurricular Activities	420,773	420,457	111,387	134,424
Interest and Fiscal Charges	246,958	260,634	246,958	260,634
Total Expenses	\$11,421,717	\$10,264,331	\$9,706,391	\$8,434,773

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,460,215 and expenditures of \$11,671,332. The decrease of \$211,117 is due to an increase in wages and benefit, an increase in maintenance and repairs, and to the timing of debt payments.

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 2004 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 17, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, original budget basis revenue was estimated at \$9,055,985 with final estimates of \$9,629,600. The difference of \$573,615 was due primarily to an increase in actual State foundation monies received and the expiration of two tax abatements compared to the original estimate. Original budget basis expenditure estimates were \$9,979,793 with final budget basis expenditure estimates of \$9,817,664. The difference of \$162,129 was due primarily to the School District using long-term substitute teachers at a lower cost for teachers who were on medical leave without pay and not filling all positions created by retirements.

The School District's ending unobligated cash balance in the General Fund was \$10,653 above the final budgeted amount.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

UNAUDITED
(Continued)

Capital Assets

At the end of fiscal year 2004 the School District had \$15,264,929 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

(Table 4)

**Capital Assets at June 30
(Net of Depreciation)
Governmental Activities**

	2004	2003
Land	\$137,750	\$137,750
Land Improvements	317,805	42,400
Buildings and Improvements	13,313,845	13,706,990
Furnitures, Fixtures and Equipment	1,060,020	846,734
Vehicles	435,509	488,095
Totals	\$15,264,929	\$15,221,969

Net Capital Assets increased \$42,960 from the prior year. This was primarily due to land improvements and furniture, fixtures and equipment additions exceeding depreciation and disposals.

For more information on capital assets, refer to Note 9 in the notes to the basic financial statements.

Debt

At June 30, 2004 the School District had \$4,095,000 in bonds outstanding. \$160,000 of the bonds outstanding represents the amounts due within one year. Table 5 summarizes bonds and capital leases outstanding:

(Table 5)

**Outstanding Debt, at Year End
Governmental Activities**

	2004	2003
General Obligation Bonds:		
1983 School Improvement Bonds	\$0	\$100,000
1997 School Improvement Bonds	4,095,000	4,245,000
Capital Leases	49,545	69,763
Totals	\$4,144,545	\$4,414,763

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

UNAUDITED

(Continued)

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 were 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.

The School District's overall legal debt margin was \$10,261,375 with an unvoted debt margin of \$155,640 at June 30, 2004. For more information on debt, refer to Note 15 in the notes to the basic financial statements.

Current Issues

The Zane Trace Local School District is financially stable at the current time. While this appears to be a positive condition, the financial stability of the District is dwindling at a steady pace. The School District continues to carry a reasonable cash balance, but our five year forecast shows that the expenditures will exceed our revenues beginning with the fiscal year 2005. Each and every financial decision from this point forward is being weighed with great caution and many factors are being considered related to the School District's continued financial stability.

As with every School District in the State of Ohio, State funding is an unpredictable issue. The State provides the majority of the revenue received within our School District. Current revenue projections do not seem to reflect increases that will keep up with the continuing operational increases the School District is beginning to suffer from due to health/medical insurance, utility cost and continuing growth in enrollment. The State also continues to reduce funding of federal and State programs which cause other funds to pick up costs or reduce provided services.

Zane Trace Local School District has received a capital lease to add an additional nine classrooms, cafeteria space and more office space which will be paid back with General Fund monies beginning January 2005. This decision was made based on an upcoming housing development coming into our School District which is projected to add approximately 500 to 600 new students to the school system in the next five years. Our building is filled to capacity at the present time.

With careful planning and monitoring of our finances, the Zane Trace Board of Education is committed to providing a quality education for our students and a secure financial future for the School District.

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$7,645,661
Materials and Supplies Inventory	26,847
Intergovernmental Receivable	109,178
Prepaid Items	56,072
Income Tax Receivable	3,812
Property Taxes Receivable	3,838,123
Capital Assets:	
Land	137,750
Depreciable Capital Assets, Net	<u>15,127,179</u>
 <i>Total Assets</i>	 <u>26,944,622</u>
 <u>Liabilities:</u>	
Accounts Payable	131,003
Accrued Wages and Benefits Payable	823,859
Intergovernmental Payable	338,116
Accrued Interest Payable	19,287
Matured Compensated Absences Payable	16,003
Deferred Revenue	3,397,457
Claims Payable	167,167
Long Term Liabilities:	
Due Within One Year	252,416
Due in More Than One Year	<u>4,559,361</u>
 <i>Total Liabilities</i>	 <u>9,704,669</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,120,384
Restricted for:	
Debt Service	334,528
Capital Projects	346,862
Other Purposes	304,056
Set -Asides	70,738
Unrestricted	<u>5,063,385</u>
 <i>Total Net Assets</i>	 <u><u>\$17,239,953</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, 2004

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets Total
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$4,868,009	\$152,996	\$111,399	\$0	(\$4,603,614)
Special	796,169	0	643,353	0	(152,816)
Vocational	8,612	0	0	0	(8,612)
Support Services:					
Pupils	279,055	0	0	0	(279,055)
Instructional Staff	394,211	0	0	0	(394,211)
Board of Education	153,885	0	0	0	(153,885)
Administration	1,094,091	0	0	0	(1,094,091)
Fiscal	340,480	0	0	0	(340,480)
Operation and Maintenance of Plant	1,238,490	400	0	0	(1,238,090)
Pupil Transportation	738,639	0	2,863	0	(735,776)
Central	348,725	0	9,000	37,950	(301,775)
Operation of Non-Instructional Services	493,620	334,946	113,033	0	(45,641)
Extracurricular Activities	420,773	235,735	73,651	0	(111,387)
Interest and Fiscal Charges	246,958	0	0	0	(246,958)
<i>Total Governmental Activities</i>	<u>\$11,421,717</u>	<u>\$724,077</u>	<u>\$953,299</u>	<u>\$37,950</u>	<u>(9,706,391)</u>

General Revenues

Property Taxes Levied for:

General Purposes	3,563,036
Debt Service	372,817
Capital Projects	68,760
Income Tax	3,812
Grants and Entitlements not Restricted to Specific Programs	5,620,912
Investment Earnings	109,125
Miscellaneous	30,167

Total General Revenues 9,768,629

Change in Net Assets 62,238

Net Assets Beginning of Year 17,177,715

Net Assets End of Year \$17,239,953

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$6,465,003	\$1,051,115	\$7,516,118
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	70,738	0	70,738
Receivables:			
Income Taxes	3,812	0	3,812
Property Taxes	3,415,475	422,648	3,838,123
Intergovernmental	0	109,178	109,178
Prepaid Items	55,208	864	56,072
Materials and Supplies Inventory	25,408	1,439	26,847
<i>Total Assets</i>	<u>\$10,035,644</u>	<u>\$1,585,244</u>	<u>\$11,620,888</u>
 <u>Liabilities and Fund Balances</u>			
<u>Liabilities:</u>			
Accounts Payable	\$126,110	\$4,893	\$131,003
Accrued Wages and Benefits Payable	739,308	84,551	823,859
Intergovernmental Payable	172,319	19,386	191,705
Matured Compensated Absences Payable	0	16,003	16,003
Deferred Revenue	3,075,512	392,114	3,467,626
<i>Total Liabilities</i>	<u>4,113,249</u>	<u>516,947</u>	<u>4,630,196</u>
 <u>Fund Balances:</u>			
Reserved for Encumbrances	34,155	16,622	50,777
Reserved for Property Taxes	339,963	45,751	385,714
Reserved for Textbooks and Instructional Materials	47,678	0	47,678
Reserved for Budget Stabilization	23,060	0	23,060
Unreserved, Undesignated, Reported in:			
General Fund	5,477,539	0	5,477,539
Special Revenue Funds	0	349,069	349,069
Debt Service Fund	0	309,993	309,993
Capital Projects Funds	0	346,862	346,862
<i>Total Fund Balances</i>	<u>5,922,395</u>	<u>1,068,297</u>	<u>6,990,692</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,035,644</u>	<u>\$1,585,244</u>	<u>\$11,620,888</u>

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, 2004

Total Governmental Fund Balances \$6,990,692

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	18,411,886	
Accumulated depreciation	(3,284,707)	
Total capital assets	15,264,929	15,264,929

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	54,952	
Intergovernmental	15,217	
	70,169	70,169

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 (159,724)

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (95,049)

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	(4,095,000)	
Accrued interest on bonds	(19,287)	
Capital leases	(49,545)	
Compensated absences	(667,232)	
Total liabilities	(4,831,064)	(4,831,064)

Net Assets of Governmental Activities \$17,239,953

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, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$3,545,350	\$439,510	\$3,984,860
Income Taxes	3,812	0	3,812
Intergovernmental	5,875,473	657,963	6,533,436
Interest	106,035	4,177	110,212
Tuition and Fees	54,666	0	54,666
Extracurricular Activities	44,585	249,144	293,729
Rentals	400	0	400
Customer Sales and Service	98,330	334,946	433,276
Contributions and Donations	0	15,657	15,657
Miscellaneous	11,288	18,879	30,167
<i>Total Revenues</i>	<u>9,739,939</u>	<u>1,720,276</u>	<u>11,460,215</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	4,731,723	142,787	4,874,510
Special	415,000	330,116	745,116
Vocational	8,612	0	8,612
Support Services:			
Pupils	267,429	5,403	272,832
Instructional Staff	360,531	0	360,531
Board of Education	152,425	0	152,425
Administration	1,036,406	29,536	1,065,942
Fiscal	310,423	14,292	324,715
Operation and Maintenance of Plant	1,403,931	106,395	1,510,326
Pupil Transportation	625,984	0	625,984
Central	294,316	24,955	319,271
Operation of Non-Instructional Services	0	472,471	472,471
Extracurricular Activities	172,907	251,330	424,237
Debt Service:			
Principal Retirement	8,673	261,545	270,218
Interest and Fiscal Charges	1,741	242,401	244,142
<i>Total Expenditures</i>	<u>9,790,101</u>	<u>1,881,231</u>	<u>11,671,332</u>
Excess of Revenues Under Expenditures	<u>(50,162)</u>	<u>(160,955)</u>	<u>(211,117)</u>
<u>Other Financing Sources (Uses):</u>			
Proceeds from Sale of Fixed Assets	25,029	0	25,029
Transfers In	0	16,015	16,015
Transfers Out	(16,015)	0	(16,015)
<i>Total Other Financing Sources (Uses)</i>	<u>9,014</u>	<u>16,015</u>	<u>25,029</u>
<i>Net Change in Fund Balances</i>	<u>(41,148)</u>	<u>(144,940)</u>	<u>(186,088)</u>
<i>Fund Balances Beginning of Year</i>	<u>5,963,543</u>	<u>1,213,237</u>	<u>7,176,780</u>
<i>Fund Balances End of Year</i>	<u>\$5,922,395</u>	<u>\$1,068,297</u>	<u>\$6,990,692</u>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$186,088)

*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	758,125	
Depreciation expense	(633,968)	
Excess of capital outlay over depreciation expense		124,157

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.

Proceeds from the sale of fixed assets	(25,029)	
Loss on disposal of capital assets	(56,168)	
		(81,197)

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	19,753	
Intergovernmental	3,987	
		23,740

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. (127,703)

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	250,000	
Capital lease payments	20,218	
Total long-term debt repayment		270,218

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	48,996	
Increase in accrued interest payable	(2,816)	
Increase in intergovernmental payable	(7,069)	
Total (increase)/decrease		39,111

Change in Net Assets of Governmental Activities \$62,238

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Budget Amounts			Variance With Final Budget Over/(Under)
	Original	Final	Actual	
<u>Revenues:</u>				
Property Taxes	\$3,664,274	\$3,674,978	\$3,435,012	(\$239,966)
Intergovernmental	5,113,932	5,647,841	5,875,473	227,632
Interest	95,611	105,593	109,849	4,256
Tuition and Fees	47,604	52,574	54,666	2,092
Extracurricular Activities	38,806	42,858	44,585	1,727
Rentals	348	385	400	15
Customer Sales and Service	85,585	94,520	98,330	3,810
Miscellaneous	9,825	10,851	11,288	437
<i>Total Revenues</i>	<u>9,055,985</u>	<u>9,629,600</u>	<u>9,629,603</u>	<u>3</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,543,722	4,661,239	4,659,154	2,085
Special	455,702	436,182	435,994	188
Vocational	11,021	8,612	8,612	0
Other	430,040	430,755	430,755	0
Support Services:				
Pupils	267,068	264,889	264,888	1
Instructional Staff	348,949	350,356	350,353	3
Board of Education	64,152	156,876	156,870	6
Administration	625,893	617,427	617,413	14
Fiscal	305,845	317,600	317,598	2
Operation and Maintenance of Plant	1,612,292	1,462,547	1,462,512	35
Pupil Transportation	824,094	648,361	640,046	8,315
Central	292,911	290,496	290,495	1
Extracurricular Activities	198,104	172,324	172,324	0
<i>Total Expenditures</i>	<u>9,979,793</u>	<u>9,817,664</u>	<u>9,807,014</u>	<u>10,650</u>
Excess of Revenues Over (Under) Expenditures	<u>(923,808)</u>	<u>(188,064)</u>	<u>(177,411)</u>	<u>10,653</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Fixed Assets	25,029	25,029	25,029	0
Transfers Out	(698,410)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(673,381)</u>	<u>25,029</u>	<u>25,029</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Net Change in Fund Balance	(1,597,189)	(163,035)	(152,382)	10,653
<i>Fund Balances at Beginning of Year</i>	5,578,888	5,578,888	5,578,888	0
<i>Prior Year Encumbrances Appropriated</i>	<u>887,005</u>	<u>887,005</u>	<u>887,005</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u><u>\$4,868,704</u></u>	<u><u>\$6,302,858</u></u>	<u><u>\$6,313,511</u></u>	<u><u>\$10,653</u></u>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

	<u>Self-Insurance</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$58,805</u>
<u>Liabilities:</u>	
Intergovernmental Payable	51,362
Claims Payable	<u>167,167</u>
<i>Total Liabilities</i>	<u>218,529</u>
<u>Net Assets:</u>	
Unrestricted (Deficit)	<u><u>(\$159,724)</u></u>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	<u>Self-Insurance</u>
<u>Operating Revenues:</u>	
Charges for Services	\$1,221,263
<u>Operating Expenses:</u>	
Purchased Services	99,425
Claims	1,249,541
<i>Total Expenses</i>	1,348,966
<i>Change in Net Assets</i>	(127,703)
<i>Net Assets (Deficit) Beginning of Year</i>	(32,021)
<i>Net Assets (Deficit) End of Year</i>	(\$159,724)

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, 2004

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Self-Insurance

Cash Received for Interfund Services Provided	\$1,221,263
Cash Payments to Suppliers for Goods and Services	(99,425)
Cash Payments for Claims	(1,199,736)

Net Cash Used for Operating Activities (77,898)

Cash Flows from Noncapital Financing Activities:

Loans from Other Governments	51,362
Payments Received from Other Governments	25,702

Net Cash Provided by Noncapital Financing Activities 77,064

Net Decrease in Cash and Cash Equivalents (834)

Cash and Cash Equivalents at Beginning of Year 59,639

Cash and Cash Equivalents at End of Year \$58,805

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss (\$127,703)

Adjustments to Reconcile Operating Loss to

Net Cash Used for Operating Activities:

Changes in Assets and Liabilities:

Increase in Claims Payable 49,805

Net Cash Used for Operating Activities (\$77,898)

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$18,176</u>
<u>Liabilities:</u>	
Undistributed Monies	<u>\$18,176</u>

See accompanying notes to the basic financial statements

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**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 61 non-certificated employees, 94 certificated full-time teaching personnel and 5 administrative employees who provide services to 1,584 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 six organizations, three of which are defined as jointly governed organizations, one as a claims servicing pool, and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross County Career and Technology Center, the Great Seal Education Network of Tomorrow, the Ross County School Employees Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Internal Service Fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net 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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

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 are 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 governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Funds

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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (e.g., revenues) and decreases (e.g., 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 (e.g., revenues) and decreases (e.g., 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.

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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 6). 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, income tax, and certain grants.

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, 2004, but which were levied to finance fiscal year 2005 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.

E. Cash and Cash Equivalents

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

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2004, 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 2004 amounted to \$106,035 which includes \$14,536 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

F. Inventory

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

G. Prepaid Items

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

H. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related to governmental activities. These assets generally 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 five hundred 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.

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 - 20 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 10 years

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 classified and certified employees after fifteen years of current service with the School District.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees have accumulated leave are paid.

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 proprietary funds are 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, 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 restricted to expenditures for specified purposes.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Net Assets (continued)

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

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses 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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements 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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to create a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

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, 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 - ACCOUNTABILITY

At June 30, 2004, the Self-Insurance Internal Service Fund had a deficit fund balance of \$159,724. 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 Self-Insurance Internal Service Fund is necessary.

NOTE 4 - 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 Balances - Budget and Actual (Budget Basis) – General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP 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).

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
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 table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$41,148)
Adjustments:	
Revenue Accruals	(110,381)
Expenditure Accruals	221,212
Encumbrances	(222,110)
Unrecorded Cash	45
Budget Basis	<u><u>(\$152,382)</u></u>

NOTE 5 - 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.

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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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 payment of 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
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 obligation, 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
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(Continued)

NOTE 5 - 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 \$7,663,837, and the bank balance was \$7,711,732. Of the bank balance, \$100,000 was covered by federal depository insurance and \$7,611,732 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, 2004.

NOTE 6 - 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 year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 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. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2004, was \$385,714 and is recognized as revenue: \$339,963 in the General Fund, \$38,752 in the Bond Retirement Fund and \$6,999 in the Classroom Facilities Maintenance Fund. The amount available as an advance at June 30, 2003, was \$260,098 and was recognized as revenue: \$229,625 in the General Fund, \$25,808 in the Bond Retirement Fund and \$4,665 in the Classroom Facilities Maintenance 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 is deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$115,238,990	75.79%	\$118,331,550	76.03%
Public Utility	10,659,210	7.01%	11,021,020	7.08%
Tangible Personal Property	26,143,730	17.20%	26,287,760	16.89%
Total Assessed Value	<u>\$152,041,930</u>	<u>100.00%</u>	<u>\$155,640,330</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$33.00		 \$33.00	

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - INCOME TAX

In prior years, the School District levied a voted tax of one-half of one 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 2004 consists only of delinquent taxes. Income tax revenue is credited to the General Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of taxes and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

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

	<u>Amount</u>
Governmental Activities:	
Student Intervention	\$15,935
Title VI-B	59,914
Title I	26,071
Title V	171
Title IV-A	98
Title II-A	6,652
Title II-D	337
Total Intergovernmental Receivable	<u>\$109,178</u>

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2004 follows:

	Balance At 6/30/2003	Additions	Deletions	Balance At 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$137,750	\$0	\$0	\$137,750
Depreciable Capital Assets:				
Land Improvements	79,617	287,567	0	367,184
Buildings and Improvements	15,050,695	0	(95,439)	14,955,256
Furniture, Fixtures and Equipment	1,456,109	393,976	(11,021)	1,839,064
Vehicles	1,240,467	76,582	(66,667)	1,250,382
Total Depreciable Capital Assets	17,826,888	758,125	(173,127)	18,411,886
Total Capital Assets At Historical Cost	17,964,638	758,125	(173,127)	18,549,636
Less Accumulated Depreciation:				
Land Improvements	(37,217)	(12,162)	0	(49,379)
Buildings and Improvements	(1,350,230)	(307,698)	16,517	(1,641,411)
Furniture, Fixtures and Equipment	(609,503)	(178,287)	8,746	(779,044)
Vehicles	(745,719)	(135,821)	66,667	(814,873)
Total Accumulated Depreciation	(2,742,669)	(633,968)	91,930	(3,284,707)
Depreciable Capital Assets, Net	15,084,219	124,157	(81,197)	15,127,179
Governmental Activities Capital Assets, Net	\$15,221,969	\$124,157	(\$81,197)	\$15,264,929

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$165,310
Special Instruction	25,092
Support Services:	
Pupils	9,018
Instructional Staff	30,574
Board of Education	1,587
Administration	27,063
Fiscal	9,391
Operation and Maintenance of Plant	68,432
Pupil Transportation	178,288
Central	74,863
Non-Instructional Services	26,608
Extracurricular Activities	17,742
Total Depreciation	\$633,968

NOTE 10 - 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 2004, 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

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 17).

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - RISK MANAGEMENT (continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:

Bodily Injury and Property Damage - Each Occurrence Limit and Sexual Abuse Injury - Each Sexual Abuse Offense Limit	\$1,000,000
Personal and Advertising Injury - Each Offense Limit	1,000,000
Fire Damage - Any One Event Limit	500,000
Medical Expense - Any One Person Limit	10,000
Medical Expense - Each Accident Limit	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Limit	1,000,000
Employee Benefits Liability Endorsement:	
Employee Benefits Injury - Each Offense Limit	1,000,000
Employee Benefits Injury - Aggregate Limit	3,000,000
Employer's Liability and Stop Gap Endorsement:	
Bodily Injury by Accident - Each Accident Limit	1,000,000
Bodily Injury by Disease - Endorsement Limit	1,000,000
Bodily Injury by Disease - Each Employee Limit	1,000,000
Educational Legal Liability Coverage (\$2,500 deductible):	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	2,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Aggregate Limit	2,000,000

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). 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. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - RISK MANAGEMENT (continued)

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 \$167,167 reported in the internal service fund at June 30, 2004, 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:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$100,421	\$833,619	\$816,678	\$117,362
2004	117,362	1,249,541	1,199,736	167,167

NOTE 11 - 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 State Statute 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$127,360, \$121,413, and \$62,890, respectively; 46.35 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$68,331 represents the unpaid contributions for fiscal year 2004.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$590,753, \$537,875, and \$346,948, respectively; 82.31 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$9,732 made by the School District and \$19,165 made by the plan members.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - 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 (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, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$45,443 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$93,683.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - 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. Teachers earn an additional \$50 for each accumulated sick day in excess of 180 days as additional severance pay.

B. Special Termination Benefit

The School District offered a Special Termination Benefit program to all certified employees who were eligible to retire from SERS. This incentive was offered through June 30, 2004. 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.

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 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.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District 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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

General capital assets consisting of furniture, fixtures and equipment, and vehicles have been capitalized in the amount of \$94,970. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2004 totaled \$20,218 in the governmental funds. The assets acquired through capital lease as of June 30, 2004, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$78,336	\$35,923	\$42,413
Vehicle	16,634	13,307	3,327
Total Lease Assets	\$94,970	\$49,230	\$45,740

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, 2004.

Fiscal Year Ending June 30,	Total Payments
2005	\$22,835
2006	18,234
2007	10,327
2008	3,636
Total	55,032
Less: Amount Representing Interest	(5,487)
Present Value of Net Minimum Lease Payments	\$49,545

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/2003	Additions	Deductions	Amount Outstanding 6/30/2004	Due Within One Year
<u>General Obligation Bonds:</u>					
1983 School Improvement Bonds, 9.375% \$2,000,000	\$100,000	\$0	\$100,000	\$0	\$0
1997 School Improvement Bonds, 3.60% - 5.45% \$4,990,000	4,245,000	0	150,000	4,095,000	160,000
Total General Obligation Bonds	4,345,000	0	250,000	4,095,000	160,000
<u>Other Long-Term Obligations:</u>					
Capital Leases	69,763	0	20,218	49,545	19,708
Compensated Absences	716,228	37,180	86,176	667,232	72,708
Total Long-Term Obligations	\$5,130,991	\$37,180	\$356,394	\$4,811,777	\$252,416

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

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

Year	Governmental Activities	
	Principal	Interest
2005	\$160,000	\$227,762
2006	165,000	220,205
2007	175,000	212,129
2008	190,000	200,850
2009	200,000	186,322
2010 - 2014	1,225,000	717,862
2015 - 2019	1,615,000	327,955
2020	365,000	9,946
Totals	\$4,095,000	\$2,103,031

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 were 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 the Public School Support Special Revenue Fund. Compensated absences will be paid from the General Fund, Food Service, Title VI-B, Chapter I, and Safe and Drug Free School Special Revenue Funds.

The School District's overall legal debt margin was \$10,261,375 with an unvoted debt margin of \$155,640 at June 30, 2004.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. 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, Gallia, Pickaway, 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 \$22,319 for services provided during the year.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

A. South Central Ohio Computer Association (continued)

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.

B. Pickaway-Ross County Career and Technology Center

The Pickaway-Ross County Career and Technology Center 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. The School District provides vocational instruction to students in both Pickaway and Ross Counties. To obtain financial information write to the Pickaway-Ross County Career and Technology Center, Ben Van Horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

C. 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. The School District paid \$300 to the Council for services provided during the year.

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

A. 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 fourteen school districts within Ross County and its surrounding area. Medical/surgical and dental insurance is administered through a third party administrator, Klias 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
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS (continued)

B. 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.

C. Ohio School Plan

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

NOTE 18 - 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, 2004, 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.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2003	\$198,334	\$332,249
Current Year Set-aside Requirement	205,808	205,808
Current Year Offsets	0	(72,575)
Qualifying Disbursements	(356,464)	(465,482)
Set-aside Reserve Balance as of June 30, 2004	\$47,678	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital acquisition set-aside amount to zero.

NOTE 19 - 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 on its future State funding and on its financial operations.

NOTE 20 - 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, 2004.

B. Litigation

The School District is not party to any legal proceedings.

NOTE 21 – SUBSEQUENT EVENT

On August 13, 2004 the School District secured a capital lease at a variable interest rate in the amount of \$3,575,000. The capital lease will mature on July 1, 2024. The capital lease will be used for the construction of additional classrooms, a cafetorium and additional office space. The Columbus Airport Authority is the lessor and has assigned US Bank as the project trustee. The School District is acting as an agent for the lessor and is constructing the additions from proceeds provided by the lessor.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the 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, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 31, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 31, 2005, we reported a matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Zane Trace Local School District
Ross County
Independent Accountants' Report on Internal Control
Over Financial Reporting and On Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for 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

May 31, 2005

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

**FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Student Activities- Accountability Internal Control Recommendation	No	Partially Corrected - Reissued in the Management letter
2003-002	Ohio Revised Code Section 5705.41 (B)- Expenditures exceeding Appropriations	Yes	Corrected



**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
JULY 12, 2005**