



**Auditor of State
Betty Montgomery**

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zane Trace Local School District, Ross County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, each major fund, and the aggregate remaining fund information of Zane Trace Local School District, Ross County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, 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 August 17, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

August 17, 2006

ZANE TRACE LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 (Unaudited)

The discussion and analysis of the Zane Trace Local School District's (the District) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial 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 in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Zane Trace Local School District exceeded its liabilities at June 30, 2005 by \$17,647,658. Of this amount, \$14,084,663 represents capital assets and related debt and net asset amounts restricted for specific purposes. The remaining \$3,562,995 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$407,705, which represents a 2.36 percent increase from 2004.
- ▶ General revenues accounted for \$10,280,951 or 85.31 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$1,770,942 or 14.69 percent of total revenues of \$12,051,893.
- ▶ The District had \$11,644,188 in expenses related to governmental activities; only \$1,770,942 of these expenses were offset by program specific charges for services and sales, operating grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$10,280,951 were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General and Construction Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$10,280,758 in revenues and \$9,943,797 in expenditures in fiscal year 2005.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Zane Trace Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the District's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services, except for the fiduciary fund activities, are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's two major governmental funds are the General and Construction Funds.

ZANE TRACE LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

(Unaudited)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Fund

The District's proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the full accrual basis of accounting. Since the internal service fund exclusively benefits governmental functions, it has been included with governmental activities in the government-wide financial statements.

Fiduciary Fund

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. 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.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2005 compared to fiscal year 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$15,465,932	\$11,679,693
Capital Assets, Net	15,733,886	15,264,929
<i>Total Assets</i>	31,199,818	26,944,622
<u>Liabilities:</u>		
Other Liabilities	5,330,793	4,892,892
Long-Term Liabilities	8,002,030	4,811,777
<i>Total Liabilities</i>	13,332,823	9,704,669
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	10,415,253	11,120,384
Restricted	3,669,410	1,056,184
Unrestricted	3,562,995	5,063,385
<i>Total Net Assets</i>	\$17,647,658	\$17,239,953

Current and other assets increased \$3,786,239 from fiscal year 2004 to 2005 due to an increase in cash and cash equivalents held by the District. Capital assets increased by only \$468,957 or 3.07 percent.

Current (other) liabilities increased by only \$437,901 or 8.95 percent.

Long-term liabilities increased by \$3,190,253 due to the addition of new capital leases.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. This accounts for 59.02 percent of net assets. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

ZANE TRACE LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

(Unaudited)

The District's next largest portion of net assets is restricted net assets. This accounts for 20.79 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The remaining balance of \$3,562,995 or 20.19 percent is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2005 and provides a comparison to fiscal year 2004.

Table 2

Changes in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$706,622	\$724,077
Operating Grants and Contributions	1,064,320	953,299
Capital Grants and Contributions	0	37,950
<i>General Revenue:</i>		
Property Taxes	4,057,201	4,004,613
Income Taxes	0	3,812
Unrestricted Grants and Entitlements	6,021,529	5,620,912
Investment Earnings	145,783	109,125
Miscellaneous	56,438	30,167
<i>Total Revenues</i>	<u>12,051,893</u>	<u>11,483,955</u>
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	4,808,717	4,868,009
Special	827,908	796,169
Vocational	10,885	8,612
Adult/Continuing	412,309	0

(Continued)

ZANE TRACE LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Table 2
Changes in Net Assets
(Continued)

	2005	2004
<i>Support Services:</i>		
Pupils	293,189	279,055
Instructional Staff	371,568	394,211
Board of Education	182,343	153,885
Administration	705,163	1,094,091
Fiscal	595,124	340,480
Operation and Maintenance of Plant	1,125,034	1,238,490
Pupil Transportation	762,567	738,639
Central	305,093	348,725
Operation of Non-Instructional Services	405,899	493,620
Extracurricular Activities	432,080	420,773
Interest and Fiscal Charges	406,309	246,958
<i>Total Expenses</i>	<u>11,644,188</u>	<u>11,421,717</u>
<i>Change in Net Assets</i>	407,705	62,238
Net Assets – Beginning of Year	<u>17,239,953</u>	<u>17,177,715</u>
Net Assets – End of Year	<u>\$17,647,658</u>	<u>\$17,239,953</u>

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant, Special Instruction, Pupil Transportation, and Administration. These programs account for 70.68 percent of the total governmental activities. Regular Instruction, which accounts for 41.30 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 8.81 percent of the total, represent costs associated with operating and maintaining the District's facilities. Special Instruction, which represents 7.11 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Pupil Transportation, which represents 6.55 percent of the total, represents costs associated with providing transportation services for student between home and school and to school activities. Administration, which represents 6.06 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole.

ZANE TRACE LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

(Unaudited)

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 83.63 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 33.66 percent and intergovernmental revenue made up 58.79 percent of the total revenue for the governmental activities in fiscal year 2005.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2005, the District received \$5,978,039 through the State's foundation program, which represents 49.60 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 52.04 percent of governmental program expenses. Support services expenses make up 37.27 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2005 compared with fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
<i>Program Expenses:</i>				
Instruction	\$6,059,819	\$5,092,371	\$5,672,790	\$4,765,042
Support Services	4,340,081	4,317,366	4,587,576	4,537,363
Operation of Non-Instructional Services	408,899	(63,020)	493,620	45,641
Extracurricular Activities	432,080	120,220	420,773	111,387
Interest and Fiscal Charges	406,309	406,309	246,958	246,958
Total Expenses	<u>\$11,644,188</u>	<u>\$9,873,246</u>	<u>\$11,421,717</u>	<u>\$9,706,391</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues and other financing sources of \$15,670,034 and expenditures and other financing uses of \$12,699,596.

Total governmental fund balance increased by \$2,970,438. The increase in fund balance for the year was most significant in the Construction Fund, which increased by \$2,655,461 during fiscal year 2005. The Construction Fund had increased activity during fiscal year 2005 due to the inception of a capital lease used to construct additional classrooms.

The District should remain stable in fiscal years 2006 through 2008. However, projections beyond fiscal year 2008 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2005, the District amended its General Fund budget two times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

For the General Fund, the final budget basis revenue was \$10,871,201 representing a \$100,382 increase from the original budget estimates \$9,673,458. The final budget reflected a .93 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of property taxes and intergovernmental revenue. For the General Fund, the final budget basis expenditures were \$10,754,328 representing a decrease of \$2,411,918 from the original budget expenditures of \$13,166,246. The final budget reflected only a 19.43 percent increase from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$19.6 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, of which all was in governmental activities. That total carries an accumulated depreciation of \$3.9 million. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2005

	<u>Governmental Activities</u>	
	2005	2004
<i>Nondepreciable Capital Assets:</i>		
Land	\$137,750	\$137,750
Construction in Progress	845,051	0
<i>Depreciable Capital Assets:</i>		
Land Improvements	403,353	367,184
Buildings and Improvements	14,975,299	14,955,256
Furniture, Fixtures, and Equipment	1,996,756	1,839,064
Vehicles	1,241,522	1,250,382
<i>Total Capital Assets</i>	19,599,731	18,549,636
<i>Less Accumulated Depreciation:</i>		
Land Improvements	(66,477)	(49,379)
Buildings and Improvements	(1,938,533)	(1,641,411)
Furniture, Fixtures, and Equipment	(947,020)	(779,044)
Vehicles	(913,815)	(814,873)
<i>Total Accumulated Depreciation</i>	(3,865,845)	(3,284,707)
<i>Capital Assets, Net</i>	\$15,733,886	\$15,264,929

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2005, the District had \$7,473,915 in general obligation debt and capital lease outstanding with \$302,031 due within one year. Table 5 summarizes bonds and capital leases outstanding for fiscal year 2005 compared to fiscal year 2004.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2005	2004
1997 School Improvement Bonds	\$3,935,000	\$4,095,000
Capital Leases	3,538,915	49,545
Total	<u>\$7,473,915</u>	<u>\$4,144,545</u>

More detailed information pertaining to the District's long-term debt activity can be found 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 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 2006. Each and every financial decision from this point forward is being weighed with great caution and many factors are being considered to the 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 District. Current revenue projections do not seem to reflect increases that will keep up with the continuing operational increases the District is beginning to suffer from due to health/medical insurance, utility cost and continuing growth 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.

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 District.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information contact Tambrea Z. Irwin, Treasurer at Zane Trace Local School District, 946 State Route 180, Chillicothe, OH 45601 or email Tirwin@mail.gsn.k12.oh.us.

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ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$8,780,216
Equity in Pooled Cash and Cash Equivalents with Fiscal Agents	17,483
Equity in Pooled Cash and Cash Equivalents with Trustee	5,006
Investments with Trustee	2,227,143
Property Taxes Receivable	4,334,491
Accounts Receivable	479
Intergovernmental Receivable	7,813
Prepaid Items	67,238
Materials and Supplies Inventory	26,063
Nondepreciable Capital Assets	982,801
Depreciable Capital Assets, Net	14,751,085
 <i>Total Assets</i>	 31,199,818
 <u>Liabilities:</u>	
Accounts Payable	62,477
Accrued Wages and Benefits	919,999
Contracts Payable	220,810
Retainage Payable	19,334
Intergovernmental Payable	279,527
Accrued Interest Payable	15,201
Deferred Revenue	3,857,650
Claims Payable	175,132
<i>Long-Term Liabilities:</i>	
Due within One Year	336,797
Due in More Than One Year	7,665,233
 <i>Total Liabilities</i>	 13,552,160
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	10,415,253
<i>Restricted for:</i>	
Capital Outlay	2,968,125
Debt Service	340,478
Other Purposes	360,807
Unrestricted	3,562,995
 <i>Total Net Assets</i>	 \$17,647,658

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$4,808,717	\$134,312	\$103,742	(\$4,570,663)
Special	827,908	0	729,394	(98,514)
Vocational	10,885	0	0	(10,885)
Adult/Continuing	412,309	0	0	(412,309)
<i>Support Services:</i>				
Pupils	293,189	0	5,790	(287,399)
Instructional Staff	371,568	0	0	(371,568)
Board of Education	182,343	0	0	(182,343)
Administration	705,163	0	0	(705,163)
Fiscal	595,124	0	0	(595,124)
Operation and Maintenance of Plant	1,125,034	0	0	(1,125,034)
Pupil Transportation	762,567	0	0	(762,567)
Central	305,093	0	16,925	(288,168)
Operation of Non-Instructional Services	405,899	342,369	126,550	63,020
Extracurricular Activities	432,080	229,941	81,919	(120,220)
Interest and Fiscal Charges	406,309	0	0	(406,309)
Total Governmental Activities	\$11,644,188	\$706,622	\$1,064,320	(9,873,246)
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				3,698,791
Debt Service				358,410
Grants and Entitlements not Restricted to Specific Programs				6,021,529
Investment Earnings				145,783
Miscellaneous				56,438
Total General Revenues				10,280,951
Change in Net Assets				407,705
<i>Net Assets at Beginning of Year</i>				<u>17,239,953</u>
<i>Net Assets at End of Year</i>				<u><u>\$17,647,658</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2005*

	General	Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$6,861,968	\$663,456	\$1,090,255	\$8,615,679
Property Taxes Receivable	3,867,483	0	467,008	4,334,491
Accounts Receivable	479	0	0	479
Intergovernmental Receivable	0	0	5,895	5,895
Prepaid Items	66,495	0	743	67,238
Materials and Supplies Inventory	23,477	0	2,586	26,063
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	103,987	0	0	103,987
Cash and Cash Equivalents With Trustee	0	5,006	0	5,006
Investment With Trustee	0	2,227,143	0	2,227,143
<i>Total Assets</i>	<u>\$10,923,889</u>	<u>\$2,895,605</u>	<u>\$1,566,487</u>	<u>\$15,385,981</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$50,755	\$0	\$8,966	\$59,721
Accrued Wages and Benefits	849,206	0	70,793	919,999
Contracts Payable	0	220,810	0	220,810
Retainage Payable	0	19,334	0	19,334
Intergovernmental Payable	261,374	0	18,153	279,527
Deferred Revenue	3,503,198	0	422,262	3,925,460
<i>Total Liabilities</i>	<u>4,664,533</u>	<u>240,144</u>	<u>520,174</u>	<u>5,424,851</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	199,024	436,345	29,153	664,522
Reserved for Property Taxes	364,285	0	44,746	409,031
Reserved for Textbooks and Instructional Material	80,927	0	0	80,927
Reserved for Capital Projects	0	2,232,149	0	2,232,149
Reserved for Budget Stabilization	23,060	0	0	23,060
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	5,592,060	0	0	5,592,060
Special Revenue Funds	0	0	347,522	347,522
Debt Service Fund	0	0	312,228	312,228
Capital Projects Funds	0	(13,033)	312,664	299,631
<i>Total Fund Balances</i>	<u>6,259,356</u>	<u>2,655,461</u>	<u>1,046,313</u>	<u>9,961,130</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,923,889</u>	<u>\$2,895,605</u>	<u>\$1,566,487</u>	<u>\$15,385,981</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, 2005*

Total Governmental Funds Balances \$9,961,130

*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
 and therefore are not reported in the funds. 15,733,886

Some of the District's receivables will be collected after fiscal year-end, however are
 not available soon enough to pay for the current period's expenditures and
 therefore are deferred in the funds. These receivables consist of:
 Property taxes 67,810

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

General obligation bonds	(3,935,000)	
Accrued interest on bonds	(15,201)	
Capital leases	(3,538,915)	
Compensated absences	(528,115)	
Total liabilities not reported in funds		(8,017,231)

An internal service fund is used by management to charge the costs of insurance to individual
 funds. The assets and liabilities of the internal service fund are included in governmental
 activities in the statement of net assets. (97,937)

Net Assets of Governmental Activities \$17,647,658

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, 2005

	General	Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$3,619,502	\$0	\$424,841	\$4,044,343
Intergovernmental	6,333,625	0	685,318	7,018,943
Interest	145,783	0	204	145,987
Tuition and Fees	52,816	0	0	52,816
Gifts and Donations	0	5,000	31,402	36,402
Extracurricular Activities	25,709	0	254,749	280,458
Charges for Services	81,496	0	342,369	423,865
Miscellaneous	21,827	0	29,611	51,438
<i>Total Revenues</i>	<u>10,280,758</u>	<u>5,000</u>	<u>1,768,494</u>	<u>12,054,252</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,656,787	0	134,978	4,791,765
Special	372,979	0	425,334	798,313
Vocational	10,885	0	0	10,885
Adult/Continuing	412,309	0	0	412,309
<i>Support Services:</i>				
Pupils	275,326	0	10,214	285,540
Instructional Staff	370,065	0	5,122	375,187
Board of Education	182,393	0	0	182,393
Administration	692,349	0	45,614	737,963
Fiscal	596,610	0	12,168	608,778
Operation and Maintenance of Plant	1,052,541	0	57,712	1,110,253
Pupil Transportation	655,033	0	0	655,033
Central	191,919	0	64,994	256,913
Operation of Non-Instructional Services	0	0	414,418	414,418
Extracurricular Activities	177,978	0	259,522	437,500
Capital Outlay	0	924,539	1,000	925,539
<i>Debt Service:</i>				
Principal Retirement	116,081	0	170,331	286,412
Interest and Fiscal Charges	180,542	0	229,853	410,395
<i>Total Expenditures</i>	<u>9,943,797</u>	<u>924,539</u>	<u>1,831,260</u>	<u>12,699,596</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>336,961</u>	<u>(919,539)</u>	<u>(62,766)</u>	<u>(645,344)</u>
<u>Other Financing Sources:</u>				
Inception of Capital Lease	0	3,575,000	40,782	3,615,782
<i>Total Other Financing Sources</i>	<u>0</u>	<u>3,575,000</u>	<u>40,782</u>	<u>3,615,782</u>
<i>Net Change in Fund Balances</i>	336,961	2,655,461	(21,984)	2,970,438
<i>Fund Balances at Beginning of Year</i>	<u>5,922,395</u>	<u>0</u>	<u>1,068,297</u>	<u>6,990,692</u>
<i>Fund Balances at End of Year</i>	<u><u>\$6,259,356</u></u>	<u><u>\$2,655,461</u></u>	<u><u>\$1,046,313</u></u>	<u><u>\$9,961,130</u></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 Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$2,970,438

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital assets additions	1,116,590	
Depreciable expenditures	<u>(622,172)</u>	
Total		494,418

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (25,461)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:

Property taxes	12,858	
Intergovernmental	<u>(15,217)</u>	
Total revenues not reported in the funds		(2,359)

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 286,412

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,086

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	139,117	
Decrease in intergovernmental payables	<u>95,049</u>	
Total expenditures not reported in the funds		234,166

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities:
Inception of capital leases (3,615,782)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental expenditures and the related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among activities. 61,787

Change in Net Assets of Governmental Activities \$407,705

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues:</u>				
Property Taxes	\$3,831,342	\$3,809,391	\$3,595,180	(\$214,211)
Income Taxes	408	4,039	3,812	(227)
Intergovernmental	6,761,615	6,710,492	6,333,146	(377,346)
Interest	65,605	154,596	145,903	(8,693)
Tuition and Fees	56,949	55,963	52,816	(3,147)
Extracurricular Activities	27,850	27,241	25,709	(1,532)
Charges for Services	19,717	86,352	81,496	(4,856)
Miscellaneous	7,333	23,127	21,827	(1,300)
<i>Total Revenues</i>	<u>10,770,819</u>	<u>10,871,201</u>	<u>10,259,889</u>	<u>(611,312)</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	6,278,895	5,283,943	4,973,082	310,861
Special	467,549	373,884	352,135	21,749
Vocational	12,783	12,106	10,885	1,221
Adult/Continuing	574,776	458,230	421,846	36,384
<i>Support Services:</i>				
Pupils	322,304	290,694	273,515	17,179
Instructional Staff	464,013	380,895	358,481	22,414
Board of Education	146,514	193,145	181,623	11,522
Administration	836,431	716,893	674,969	41,924
Fiscal	539,868	631,591	594,181	37,410
Operation and Maintenance of Plant	1,457,818	1,205,225	1,116,114	89,111
Pupil Transportation	899,961	802,383	744,920	57,463
Central	206,557	207,103	194,799	12,304
Extracurricular Activities	208,777	198,236	179,627	18,609
<i>Total Expenditures</i>	<u>12,416,246</u>	<u>10,754,328</u>	<u>10,076,177</u>	<u>678,151</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,645,427)</u>	<u>116,873</u>	<u>183,712</u>	<u>66,839</u>
<u>Other Financing Sources:</u>				
Transfers Out	(750,000)	0	0	0
<i>Total Other Financing Sources</i>	<u>(750,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	<u>(2,395,427)</u>	<u>116,873</u>	<u>183,712</u>	<u>66,839</u>
<i>Fund Balance at Beginning of Year</i>	6,313,511	6,313,511	6,313,511	0
Prior Year Encumbrances Appropriated	222,103	222,103	222,103	0
<i>Fund Balance at End of Year</i>	<u>\$4,140,187</u>	<u>\$6,652,487</u>	<u>\$6,719,326</u>	<u>\$66,839</u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fund Net Assets

Internal Service Fund

June 30, 2005

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$60,550
Cash and Cash Equivalents with Fiscal Agents	17,483
Intergovernmental Receivable	<u>1,918</u>
<i>Total Current Assets</i>	<u>79,951</u>
<i>Total Assets</i>	<u>79,951</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Accounts Payable	2,756
Claims Payable	<u>175,132</u>
<i>Total Current Liabilities</i>	<u>177,888</u>
<i>Total Liabilities</i>	<u>177,888</u>
<u>Net Assets:</u>	
Unrestricted (Deficit)	<u><u>(\$97,937)</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, 2005*

	Governmental Activities
	Internal Service Fund
<u>Operating Revenues:</u>	
Charges for Services	\$1,467,786
<i>Total Operating Revenues</i>	1,467,786
<u>Operating Expenses:</u>	
Purchased Services	127,668
Claims	1,278,331
<i>Total Operating Expenses</i>	1,405,999
<i>Change in Net Assets</i>	61,787
<i>Net Assets (Deficit) at Beginning of Year</i>	(159,724)
<i>Net Assets (Deficit) at End of Year</i>	(\$97,937)

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Governmental Activities

Internal Service Fund

For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,414,506
Cash Payments for Goods and Services	(124,912)
Cash Payments for Claims	<u>(1,270,366)</u>
<i>Net Cash from Operating Activities</i>	<u>19,228</u>
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>58,805</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$78,033</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	\$61,787
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>(Increase) in Assets:</i>	
Intergovernmental Receivable	(1,918)
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	2,756
Intergovernmental Payable	(51,362)
Claims Payable	<u>7,965</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$19,228</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2005

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$32,202</u>
<u>Liabilities:</u>	
Undistributed Monies	<u>\$32,202</u>

See accompanying notes to the basic financial statements.

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ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Description of the District

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

The District was established in 1965 through the consolidation of existing land areas and school districts. The 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, 99 certificated full time teaching personnel and 4 administrative employees who provide services to 1,592 students and other community members. The 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 District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Zane Trace Local School District, this includes general operations, food service, and student related activities of the District.

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

The 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 17 and 18 to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 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 District's accounting policies are described below.

A. Basis of Presentation

The 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 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 statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the District.

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain 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 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 fund type.

B. Fund Accounting

The 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

General Fund - The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Construction Fund - The Construction Fund is used to account for capital lease proceeds drawn down by the District. Expenditures recorded here represent costs associated with acquiring and constructing additions to the high school, middle school and a multipurpose fitness center.

The other governmental funds of the District account for grants and other resources, food service and capital projects 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 District has no enterprise funds. The following is a description of the District's internal service fund:

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund. The District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund is 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 fund cash flows provides information about how the District finances and meets the cash flow needs of its internal service 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 internal service fund 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 District, available means expected to be received within sixty days of fiscal year-end.

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

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, and certain grants.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, but which were levied to finance fiscal year 2006 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, except for (1) principal and interest on long term debt and capital lease obligations which is recorded when due and (2) the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employer resignations and terminations. 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 District is pooled. Monies for all funds, including the internal service fund, are maintained in this pool. Individual fund integrity is maintained through the District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The District has accounts with a trustee and a fiscal agent for monies which are held separate from the District's treasury accounts. These accounts are presented on the statement of net assets and balance sheet as "Pooled Cash and Cash Equivalents with Fiscal Agent" and "Pooled Cash and Cash Equivalents with Trustee" since they are not required to be deposited into the District's treasury.

During fiscal year 2005, investments were limited to certificates of deposit and money market funds, 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 2005 amounted to \$145,783 which includes \$25,913 assigned from other 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 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 expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. 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 District for capital improvements, the purchase of textbooks and instructional material and to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides. This also includes the amount of unspent capital lease proceeds held by the Trustee in the construction fund.

I. Capital Assets

The 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 capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The 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	20 years
Buildings and Improvements	3 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	4 - 8 years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees after fifteen years of current service with the 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.

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund 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, and special termination benefits 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.

L. Net Assets

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

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

M. Fund Balance Reserves

The 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, textbook and instructional materials, budget stabilization, and capital projects.

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 set-asides represents money required to be set-aside by statute for textbooks, and budget stabilization. See Note 19 for additional information regarding set-asides.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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. Interfund transfers are eliminated in the statement of activities. The District had no such transactions for the fiscal year end 2005.

O. 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.

P. 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 District 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 District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2005, the District implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. The implementation of GASB Statement No. 40 had no effect on the District's financial statements. The implementation of GASB Statement No. 40 had no effect on the disclosure requirements or the prior period fund balances of the District.

NOTE 4 - ACCOUNTABILITY

At June 30, 2005, the Internal Service Fund had a deficit fund balance of \$97,937. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur. The District is currently monitoring user charges to see if an increase in rates in the Internal Service Fund is necessary.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (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).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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	\$336,961
<i>Adjustments:</i>	
Revenue Accruals	(20,869)
Expenditure Accruals	109,026
Encumbrances	<u>(241,406)</u>
Budget Basis	<u><u>\$183,712</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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.

Protection of the 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, its political subdivisions or other units or agencies of this state or its political subdivision;
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);

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed two hundred seventy 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.
9. Time certificates of deposit or savings or deposits accounts, including, but not limited to, passbook accounts.

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 District, and must be purchased with the expectation that it will be held to maturity.

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.

Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all the District deposits were \$8,817,424, which includes \$5,006 cash with trustees. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$8,821,811 of the District's bank balance of \$8,921,811 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of all the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

Investments

As of June 30, 2005, the District had the following investments and maturities:

	Carrying/Fair Value	Maturities 6 to 12 months
Allegiant Govt Money Market Fund	\$115	\$115
CDC Funding Corp Investment Agreement	2,227,028	2,227,028
Total Investment	<u>\$2,227,143</u>	<u>\$2,227,143</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at the end of the fiscal year 2005:

<u>Investment Type</u>	<u>Carrying/Fair Value</u>	<u>% of Total</u>
Allegiant Govt Money Market Fund	\$115	0.01%
CDC Funding Corp Investment Agreement	2,227,028	99.99%
Total Investment	<u>\$2,227,143</u>	<u>100.00%</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting investment portfolio maturities to five years or less.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to money market accounts. Investments in Allegiant Government Money Market Funds were rated Aaaa by Moody's and AAAM by Standard and Poor's Investments in the CDC Funding Corp Investment Agreement is part of IXIS and rated AAA by Standard and Poor's.

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. While the District's fiscal year runs from July through June, first half collections are received by the District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Property tax revenue received during the calendar year 2005 for real and public utility property taxes represents collections of calendar year 2004 taxes. Property tax payments received during calendar year 2004 for tangible personal property (other than public utility property) are for calendar year 2004 taxes. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 7 - PROPERTY TAXES (Continued)

The District receives property taxes from Ross County. The Ross County Auditor periodically advances to the District their portion of the taxes collected. Second-half real property tax payments collected by each county by June 30, 2005 are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30, 2005 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as an advance at June 30, 2005 were \$364,285 for the General Fund, \$7,109 for the Classroom Facilities Maintenance Nonmajor Special Revenue Fund and \$37,637 for the Bond Retirement Nonmajor Debt Service Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$118,331,550	76.03%	\$131,380,470	78.13%
Public Utility	11,021,020	7.08%	10,905,520	6.49%
Tangible Personal Property	26,287,760	16.89%	25,872,070	15.38%
Total Assessed Value	<u>\$155,640,330</u>	<u>100.00%</u>	<u>\$168,158,060</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.00		\$32.60	

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts 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>
<i>Nonmajor Special Revenue Funds:</i>	
Ohio Reads	\$4,156
Title VI-B	916
Safe and Drug Free Schools	579
Miscellaneous Federal Grants	<u>244</u>
Total Nonmajor Special Revenue Funds	5,895
Internal Service Fund	<u>1,918</u>
Total Intergovernmental Receivable	<u><u>\$7,813</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2005 follows:

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005
<u>Governmental Activities</u>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$137,750	\$0	\$0	\$137,750
Construction in Progress	0	845,051	0	845,051
Total Nondepreciable Capital Assets	137,750	845,051	0	982,801
<i>Depreciable Capital Assets:</i>				
Land Improvements	367,184	36,169	0	403,353
Building and Improvements	14,955,256	35,225	(15,182)	14,975,299
Furniture, Fixtures and Equipment	1,839,064	192,371	(34,679)	1,996,756
Vehicles	1,250,382	7,774	(16,634)	1,241,522
Total Depreciable Capital Assets	18,411,886	271,539	(66,495)	18,616,930
Total Capital Assets	18,549,636	1,116,590	(66,495)	19,599,731
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(49,379)	(17,098)	0	(66,477)
Building and Improvements	(1,641,411)	(306,358)	9,236	(1,938,533)
Furniture, Fixtures and Equipment	(779,044)	(189,794)	21,818	(947,020)
Vehicles	(814,873)	(108,922)	9,980	(913,815)
Total Accumulated Depreciation	(3,284,707)	(622,172)	41,034	(3,865,845)
Depreciable Capital Assets, Net	15,127,179	(350,633)	(25,461)	14,751,085
Governmental Activities Capital Assets, Net	\$15,264,929	\$494,418	(\$25,461)	\$15,733,886

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 9 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular Instruction	\$184,931
Special Instruction	25,114
<i>Support Services:</i>	
Pupils	9,019
Instructional Staff	31,043
Administration	30,495
Fiscal	6,387
Operation and Maintenance of Plant	72,045
Pupil Transportation	152,834
Central	65,932
Operation of Non-Instructional Services	26,692
Extracurricular Activities	17,680
Total Depreciation	<u><u>\$622,172</u></u>

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the 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 (\$2,500 deductible)	17,955,293
Boiler and Machinery (\$2,500 deductible)	No Limit
Automobile Liability (\$500 deductible)	2,000,000
<i>General Liability:</i>	
Per occurrence	1,000,000
Total per year	1,000,000

During fiscal year 2005, the 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 District pays this annual premium to the OSP. (See Note 18).

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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: 1,000,000

Employee Benefits Injury - Each Offense Limit

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the 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 District pays an enrollment fee to the GRP to cover costs of administering the program.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The 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 District's behalf. The claims liability of \$175,132 reported in the Internal Service Fund at June 30, 2005, 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
2004	\$117,362	\$1,249,541	\$1,199,736	\$167,167
2005	167,167	1,278,331	1,270,366	175,132

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.5 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$147,189, \$127,360, and \$121,413, respectively; 49.26 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$73,594 represents the unpaid contributions for fiscal year 2005.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a costsharing, 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent. 13 percent was the portion used to fund pension obligations. 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$655,467, \$590,753, and \$537,875, respectively; 83.09 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$10,973 made by the District and \$21,158 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The 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. STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$50,421 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization 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. All retirees and beneficiaries must pay a portion of their premium for health care. The portion is based on years of service, medicare eligibility, and retirement status. Premiums may be reduced for retirees which household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$97,096.

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

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

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. Life Insurance

The District provides life insurance to most employees through Safeco.

C. Deferred Compensation

The 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 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2005 for its governmental activities were as follows:

	Amount Outstanding June 30, 2004	Additions	Deletions	Amount Outstanding June 30, 2005	Due Within One Year
<u>General Obligation Bonds:</u>					
1997 School Improvement Bonds, 5.45%					
Term Bonds	\$2,995,000	\$0	\$0	\$2,995,000	\$0
Serial Bonds 3.60% - 7.45%	1,100,000	0	160,000	940,000	165,000
Total General Obligation Bonds	4,095,000	0	160,000	3,935,000	165,000
<u>Other Long-Term Obligations:</u>					
Capital Leases	49,545	3,615,782	126,412	3,538,915	137,031
Compensated Absences	667,232	172,269	311,386	528,115	34,766
Total Long-Term Obligations	\$4,811,777	\$3,788,051	\$597,798	\$8,002,030	\$336,797

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

1997 School Improvement Bonds - In July 1997, the District issued \$4,990,000 of voted general obligation bonds for the purpose of constructing a new high school building. \$1,995,000 was issued as serial bonds with interest rates ranging from 3.60% to 7.45%. \$2,995,000 was issued as term bonds with an interest rate of 5.45%. The bonds were issued for a twenty-three year period, with final maturity December 1, 2019. The bonds will be retired from the Bond Retirement Debt Service Fund.

The term bonds maturing on December 1, 2019 (fiscal year 2020) are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the fiscal years and respective principal amounts as follows:

Year	Amount
2011	\$230,000
2012	245,000
2013	260,000
2014	280,000
2015	290,000
2016	310,000
2017	325,000
2018	335,000
2019	355,000
2020	365,000

Term bonds maturing on December 1, 2019 are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after December 1, 2007, as follows:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2007 through November 30, 2008	101%
December 1, 2008 and thereafter	100%

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the School Improvement Bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Term Bonds	Serial Bonds	Interest	Total
2006	\$0	\$165,000	\$220,205	\$385,205
2007	0	175,000	212,127	387,127
2008	0	190,000	200,850	390,850
2009	0	200,000	186,322	386,322
2010	0	210,000	171,050	381,050
2011-2015	1,305,000	0	646,779	1,951,779
2016-2020	1,690,000	0	237,893	1,927,893
Totals	<u>\$2,995,000</u>	<u>\$940,000</u>	<u>\$1,875,226</u>	<u>\$5,810,226</u>

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

The District's overall legal debt margin was \$11,199,225 with an unvoted debt margin of \$168,158 at June 30, 2005.

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

The capital lease obligations recorded in the Construction Fund relates to the construction of additions and improvements to the high school and middle school and the athletic facility. The District is leasing the project from the Columbus Airport Authority. The Columbus Airport Authority has assigned US Bank as trustee. US Bank deposited \$3,575,000 in the District's name with the escrow agent for the construction projects. The District will then submit invoices to the agent for reimbursement. The District will make semi annual lease payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The lease is renewable annually and expires in 2025. The intention of the District is to renew the lease annually.

The project began during fiscal year 2005. The District will begin making payments in fiscal year 2005. The principal owed on the lease at year end is \$3,575,000.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

General capital assets consisting of copier equipment and construction in progress have been capitalized in the amount of \$524,333. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2005 totaled \$126,412 in the governmental funds. The assets acquired through capital lease as of June 30, 2005, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$126,564	\$66,147	\$60,417
Construction in Progress	845,051	0	845,051
Total Lease Assets	<u>\$971,615</u>	<u>\$66,147</u>	<u>\$905,468</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year Ending June 30,	Total Payments
2006	\$324,108
2007	315,413
2008	308,668
2009	305,678
2010	291,644
2011-2015	1,445,584
2016-2020	1,437,874
2021-2024	<u>1,145,444</u>
Total	5,574,413
Less: Amount Representing Interest	<u>(2,035,498)</u>
Present Value of Net Minimum Lease Payments	<u>\$3,538,915</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 16 - CONTRACT COMMITMENTS

As of June 30, 2005, the District had contractual purchase commitments relating to the construction of additional classrooms. The amount for each project is as follows:

<u>Contractor</u>	<u>Project</u>	<u>Purchase Commitments</u>	<u>Amounts Paid as of June 30, 2005</u>	<u>Amounts Remaining on Contracts</u>
J & H Reinforcing & Structural	General Construction	\$1,354,291	\$80,708	\$1,273,583
Brenmar Construction	Plumbing	69,985	0	69,985
Mechanical Construction Company	HVAC	339,580	4,052	335,528
Sidewinder Electric	Electrical	233,780	27,123	206,657
Dalmatian Fire Protection	Fire Protection	19,700	7,268	12,432
Micromann Inc.	Technology	82,523	0	82,523
<i>Total</i>		<u>\$2,099,859</u>	<u>\$119,151</u>	<u>\$1,980,708</u>

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The 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 District paid SCOCA \$27,575 for services provided during the year.

Financial information can be obtained from their fiscal agent, the Pike County Career and Technology Center, 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 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 District paid \$100 to the Council for services provided during the year.

NOTE 18 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

A. Ross County School Employees Insurance Consortium

The 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.

B. Ohio School Boards Association Workers’ Compensation Group Rating Plan

The 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 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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, 2005, the 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, capital improvements and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Improvements	Budget Stabilization	Total
Set-aside Reserve Balance as of June 30, 2004	\$47,678	\$0	\$23,060	\$70,738
Current Year Set-aside Requirement	224,978	224,978	0	449,956
Current Year Offsets	(191,729)	(175,677)	0	(367,406)
Qualifying Disbursements	0	(1,341,997)	0	(1,341,997)
Set-aside Reserve Balance as of June 30, 2005	<u>\$80,927</u>	<u>(\$1,292,696)</u>	<u>\$23,060</u>	<u>(\$1,188,709)</u>
Set-aside Reserve Balance Carried Forward to FY 06	<u>\$80,927</u>	<u>\$0</u>	<u>\$23,060</u>	<u>\$103,987</u>

NOTE 20 - 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

ZANE TRACE LOCAL SCHOOL DISTRICT

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

NOTE 21 - CONTINGENCIES

A. Grants

The 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 District at June 30, 2005.

B. Litigation

The District is not party to any legal proceedings.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Program Title						
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation (See Note "B")	N/A	10.550	\$ -	\$ 17,640	\$ -	\$ 17,640
School Breakfast Program	05-PU-2004	10.553	5,831	-	5,831	-
School Breakfast Program	05-PU-2005	10.553	<u>19,248</u>	-	<u>19,248</u>	-
Total School Breakfast Program			25,079	-	25,079	-
National School Lunch Program	LL-P4-2004	10.555	23,036	-	23,036	-
National School Lunch Program	LL-P4-2005	10.555	<u>86,258</u>	-	<u>86,258</u>	-
Total National School Lunch Program			109,294	-	109,294	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE- Child Nutrition Cluster			<u>134,373</u>	<u>17,640</u>	<u>134,373</u>	<u>17,640</u>
U.S. DEPARTMENT OF Education						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	10,855	-	23,587	-
Title I Grants to Local Educational Agencies	C1-S1-2005	84.010	<u>88,384</u>	-	<u>75,966</u>	-
Total Title I Grants to Local Educational Agencies			99,239	-	99,553	-
Special Education Grants to States	6B-SF-2004	84.027	59,914	-	92,905	-
Special Education Grants to States	6B-SF-2005	84.027	<u>293,489</u>	-	<u>249,429</u>	-
Total Special Education Grants to States			353,403	-	342,334	-
Safe and Drug Free Schools and Communities State Grant	DR-S1-2004	84.186	98	-	982	-
Safe and Drug Free Schools and Communities State Grant	DR-S1-2005	84.186	<u>5,211</u>	-	<u>4,899</u>	-
Total Safe and Drug Free Schools and Communities State Grant			5,309	-	5,881	-
State Grants for Innovative Programs	C2-S1-2004	84.298	171	-	1,333	-
State Grants for Innovative Programs	C2-S1-2005	84.298	<u>6,810</u>	-	<u>5,763</u>	-
Total State Grants for Innovative Programs			6,981	-	7,096	-
Education Technology State Grants	TJ-S1-2004	84.318	337	-	337	-
Education Technology State Grants	TJ-S1-2005	84.318	<u>2,106</u>	-	<u>-</u>	-
Total Education Technology State Grants			2,443	-	337	-
Improving Teacher Quality State Grants	TR-S1-2004	84.367	6,652	-	8,415	-
Improving Teacher Quality State Grants	TR-S1-2005	84.367	<u>54,265</u>	-	<u>43,304</u>	-
Total Improving Teacher Quality State Grants			60,917	-	51,719	-
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>528,292</u>	<u>-</u>	<u>506,920</u>	<u>-</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 662,665</u>	<u>\$ 17,640</u>	<u>\$ 641,293</u>	<u>\$ 17,640</u>

The accompanying notes are an integral part of this schedule.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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



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 State Route 180
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zane Trace Local School District, Ross County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 17, 2006. 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 August 17, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated August 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

We intend this report solely for the information and use of the finance committee, management, the Board of Education, federal awarding agencies, and pass-through entities. 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

August 17, 2005



Auditor of State Betty Montgomery

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

Zane Trace Local School District
Ross County
946 State Route 180
Chillicothe, Ohio 45601

To the Board of Education:

Compliance

We have audited the compliance of Zane Trace Local School District, Ross County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Zane Trace Local School District, Ross County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005. In a separate letter to the District's management dated August 17, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated August 17, 2006.

We intend this report solely for the information and use of the finance committee, management, the Board of Education, federal awarding agencies, and pass-through entities. 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

August 17, 2006

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.027 Special Education Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Finding Repaid Under Audit- Student Activities- Eighth Grade Class- Public Money Due But Not Collected

The Eighth Grade Class conducted a candy bar fundraiser from which profits were used to pay for a field trip to Washington D.C. For the candy bar sale, the District ordered and paid for a total of 5,200 candy bars (25 cases of various candy bars @ 208/units per case). The candy bars were sold at \$1 per candy bar for a total potential collection of \$5,200. However, the District only could account for \$4,069.90 in monies collected for the candy bar fundraiser leaving \$1,130.10 in collections that could not be accounted for.

In accordance with the foregoing facts, and pursuant Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected would have been issued against Dorothy Smith, Eighth Grade Class Advisor, in the amount of \$1,130.10, in favor of the Special Revenue Fund.

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001 (Continued)

Finding Repaid Under Audit- Student Activities- Eighth Grade Class- Public Money Due But Not Collected (Continued)

The \$1,130.10 total represents the retail value of the goods not accounted for. It is acknowledged that upon adequate documentation of the actual amount expended by the School District for the cost of these goods correlating to the retail value, repayment of the cost would be appropriate.

The above finding was paid by the Middle School PTO on behalf of Dorothy Smith, Eighth Grade Class Advisor on April 7, 2006, with check number 3861, from the Zane Trace Local School District, Middle School PTO account. It was receipted by the Zane Trace Local School District on receipt number 29704 for \$1,130.10.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



**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
OCTOBER 17, 2006**