
ZANE TRACE LOCAL SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2016

With Independent Auditors' Report



Dave Yost • Auditor of State

Board of Education
Zane Trace Local School District
946 State Route 180
Chillicothe, OH 45601

We have reviewed the *Independent Auditor's Report* of the Zane Trace Local School District, Ross County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 28, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Zane Trace Local School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Zane Trace Local School District (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Zane Trace Local School District as of June 30, 2016, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and schedules of net pension liabilities and pension contributions on pages 65 and 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Zane Trace Local School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2016

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(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, 2016. 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.

Financial Highlights

- ▶ The liabilities and deferred inflows of Zane Trace Local School District exceeded its assets and deferred outflows at June 30, 2016 by \$3,689,574. Of this amount, \$10,755,915 represents net investment in capital assets and net position amounts restricted for specific purposes. The remaining deficit of \$14,445,489 represents unrestricted net position.
- ▶ In total, net position of governmental activities increased by \$609,655 which represents a 14.18 percent increase from 2015.
- ▶ General revenues accounted for \$13,010,407 or 85.77 percent of and revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$2,159,152 or 14.23 percent of total revenues of \$15,169,559.
- ▶ The District had \$14,559,904 in expenses related to governmental activities; only \$2,159,152 of these expenses were offset by program specific charges for services and sales and operating grants and contributions. General revenues (primarily taxes and grants and entitlements) of \$13,010,407 were used to provide for the remainder of these programs.
- ▶ The District recognizes one major governmental fund: the General 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 \$13,364,909 in revenues and \$12,878,220 in expenditures in fiscal year 2016.

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 the 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, 2016
(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 position 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, deferred outflows, liabilities and deferred inflows 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 position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Over time, increases and decreases in net position 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 position changed during the recent fiscal year. All changes in net position 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 17. 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 only major governmental fund is the General Fund.

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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 maintains only one proprietary fund, which 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. The internal service fund is included with governmental activities on the government-wide financial statements.

Fiduciary Funds

The District's fiduciary funds include private purpose trust and agency funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Private purpose trust funds are held in a trustee capacity for individuals, private organizations, or other governments. 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.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net position provides the perspective of the District as a whole, showing assets, deferred outflows, liabilities, deferred inflows and the difference between them (net position). Table 1 provides a summary of the District's net position for 2016 compared to fiscal year 2015:

Table 1
Net Position at Year End
Governmental Activities

	2016	2015
<u>Assets:</u>		
Current and Other Assets	\$9,806,796	\$9,553,870
Capital Assets, Net	12,463,905	12,798,871
<i>Total Assets</i>	22,270,701	22,352,741
<u>Deferred Outflows of Resources:</u>		
Deferred Charge on Refunding	2,721	3,498
Pension	1,607,169	1,156,964
<i>Total Deferred Outflows of Resources</i>	1,609,890	1,160,462
<u>Liabilities:</u>		
Current and Other Liabilities	1,905,225	1,685,125
Long-Term Liabilities:		
Due Within One Year	571,512	551,158
Due in More Than One Year:		
Net Pension Liability	16,407,232	14,794,630
Other Amounts	3,341,736	3,819,141
<i>Total Liabilities</i>	22,225,705	20,850,054
<u>Deferred Inflows of Resources:</u>		
Property Taxes	3,925,712	4,286,644
Pension	1,418,748	2,675,734
<i>Total Deferred Inflows of Resources</i>	5,344,460	6,962,378
<u>Net Position:</u>		
Net Investment in Capital Assets	9,319,230	9,225,852
Restricted	1,436,685	1,426,571
Unrestricted	(14,445,489)	(14,951,652)
<i>Total Net Position</i>	(\$3,689,574)	(\$4,299,229)

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

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

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

In accordance with GASB Statement No. 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB Statement No. 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Current and other assets increased \$252,926 from fiscal year 2015 due to an increase in property taxes receivable. Capital assets decreased by \$334,966 or 2.62 percent.

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Current (other) liabilities increased by \$220,100 or 13.06 percent due mostly to an increase in intergovernmental payable.

Long-term liabilities increased by \$1,155,551 or 6.03 percent as the result of an increase in net pension liability.

The District's largest portion of net position is net investment in capital 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.

The balance of \$1,436,685 in restricted net position is subject to external restrictions on how they may be used.

Table 2 shows the changes in net position for fiscal year 2016 and provides a comparison to fiscal year 2015.

Table 2
Changes In Net Position
Governmental Activities

	2016	2015
<u>Revenues:</u>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$1,259,637	\$1,130,983
Operating Grants and Contributions	899,515	1,193,105
Capital Grants and Contributions	0	41,530
<i>General Revenues:</i>		
Property Taxes	5,068,865	4,491,398
Income Taxes	315,471	1,357
Unrestricted Grants and Entitlements	7,428,480	7,394,902
Investment Earnings	6,228	6,411
Miscellaneous	191,363	216,273
<i>Total Revenues</i>	15,169,559	14,475,959

(Continued)

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

Table 2
Changes in Net Position (Continued)

	2016	2015
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	7,300,531	7,117,776
Special	1,349,650	1,310,275
Vocational	7,690	7,394
Student Intervention Services	15,349	13,934
Other	47,566	16,611
<i>Support Services:</i>		
Pupils	940,061	932,128
Instructional Staff	255,264	261,731
Board of Education	188,388	183,709
Administration	866,075	935,723
Fiscal	358,044	633,061
Operation and Maintenance of Plant	1,079,063	1,203,184
Pupil Transportation	792,341	846,614
Central	212,481	140,900
Operation of Non-Instructional Services	557,505	567,275
Extracurricular Activities	434,119	407,507
Interest and Fiscal Charges	155,777	165,776
<i>Total Expenses</i>	14,559,904	14,743,598
<i>Change in Net Position</i>	609,655	(267,639)
Net Position-Beginning of Year	(4,299,229)	(4,031,590)
Net Position-End of Year	(\$3,689,574)	(\$4,299,229)

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Pupils, Administration and Pupil Transportation. These programs account for 84.67 percent of the total governmental activities. Regular Instruction, which accounts for 50.14 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 9.27 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 7.41 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupils, which represents 6.46 percent of the total, represents costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Administration, which represents 5.95 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 5.44 percent of the total, represents costs associated with providing transportation services for student between home and school and to school activities.

The change in revenues consists of a decrease of \$206,466 or 8.73 percent in program revenue from last year and an increase of \$663,075 or 5.48 percent in general revenues. The decrease in program revenues is due to a decrease of \$293,590 or 24.61 percent in operating grants and contributions as a result of a decrease in grant funding. The increase in general revenues is due to an increase of \$577,467 or 12.86 percent in property taxes.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

The total expenses for governmental activities decreased \$183,694 or 1.25 percent primarily due to cost saving measures implemented by the District. The decrease is primarily attributable to a decrease of \$124,121 or 10.32 percent of Operation and Maintenance of Plant which is the result of cost saving in the maintenance of District facilities.

The majority of the funding for the most significant programs indicated above is from property taxes, charges for services and sales and grants and entitlements not restricted for specific programs. Property taxes, charges for services and sales, operating grants and contributions and grants and entitlements not restricted for specific programs account for 96.62 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 33.41 percent and intergovernmental revenue makes up 54.90 percent of the total revenue for the governmental activities in fiscal year 2016.

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 2016, the District received \$6,555,676 through the State's foundation program, which represents 43.22 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 59.90 percent of governmental activities program expenses. Support services expenses make up 32.22 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2016 compared with fiscal year 2015. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
<i>Program Expenses:</i>				
Instruction	\$8,720,786	\$7,328,428	\$8,465,990	\$6,876,607
Support Services	4,691,717	4,590,583	5,137,050	5,062,550
Operation of Non-Instructional Services	557,505	67,035	567,275	79,231
Extracurricular Activities	434,119	258,929	407,507	193,816
Interest and Fiscal Charges	155,777	155,777	165,776	165,776
Total Expenses	<u>\$14,559,904</u>	<u>\$12,400,752</u>	<u>\$14,743,598</u>	<u>\$12,377,980</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 \$15,260,801 and expenditures of \$14,752,293.

Total governmental fund balance increased by \$508,508. The increase in fund balance for the year was most significant in the General Fund, which increased by \$591,379 as the result of revenues exceeding expenditures during fiscal year 2016. Revenue increases were the most significant in property taxes which is the result of an increase in delinquents received during 2016 and tuition and fees which is due to an increase in tuition received from state foundation payments.

The District should remain stable in fiscal years 2017 and 2018. However, projections beyond fiscal year 2018 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 2016, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's 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.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

For the General Fund, the final budget basis revenue was \$13,437,797 representing a \$652,599 decrease from the original budget estimates of \$14,090,396. The final budget reflected a 4.63 percent decrease from the original budgeted amount. Most of this difference was due to receiving less property tax and tuition and fees revenue than was originally estimated. For the General Fund, the final budget basis expenditures were \$12,898,278 representing a decrease of \$3,145,013 from the original budget expenditures of \$16,043,291. The final budget reflected a 19.60 percent decrease from the original budgeted amount. Most of this difference was due to the increases in regular instruction, special instruction, pupils and operation and maintenance of plant expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$22.3 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, textbooks, and vehicles, of which all was in governmental activities. That total carries an accumulated depreciation of \$9.8 million. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015.

Table 4
Capital Assets & Accumulated Depreciation at Year End

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$137,750	\$137,750
<i>Depreciable Capital Assets:</i>		
Land Improvements	411,016	411,016
Buildings and Improvements	17,599,426	17,599,426
Furniture, Fixtures, Equipment and Textbooks	2,861,480	2,717,056
Vehicles	1,274,842	1,274,842
<i>Total Capital Assets</i>	<u>22,284,514</u>	<u>22,140,090</u>
 <i>Less Accumulated Depreciation:</i>		
Land Improvements	(266,733)	(248,687)
Buildings and Improvements	(6,181,027)	(5,836,305)
Furniture, Fixtures, Equipment and Textbooks	(2,190,979)	(2,097,311)
Vehicles	(1,181,870)	(1,158,916)
<i>Total Accumulated Depreciation</i>	<u>(9,820,609)</u>	<u>(9,341,219)</u>
<i>Capital Assets, Net</i>	<u>\$12,463,905</u>	<u>\$12,798,871</u>

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

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Debt Administration

At June 30, 2016, the District had \$3,118,215 in general obligation debt, certificate of participation obligations and capital leases outstanding with \$548,550 due within one year. Table 5 summarizes amounts outstanding for fiscal year 2016 compared to fiscal year 2015.

Table 5
Outstanding Debt, Governmental Activities at Year End

<u>Purpose</u>	<u>2016</u>	<u>2015</u>
2009 Refunding Bonds	\$1,020,000	\$1,345,000
Capital Appreciation Bonds	159,999	159,999
Certificate of Participation	1,849,000	2,034,000
Capital Leases	89,216	0
Total	<u>\$3,118,215</u>	<u>\$3,538,999</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 moving closer to becoming financially stable. While the District continues to carry a reasonable cash balance, our projections show that the expenditures will exceed our revenue in each fiscal year reflected on the Five Year Forecast. The passage of the new school district income tax levy effective January 1, 2016 has improved the districts' financial condition outlook for the next five years. Each and every financial decision is considered by the effect it will have related to maintaining the District's continued financial stability.

As with every School District in the State of Ohio, State funding is an unpredictable issue. The State continues to provide the majority of the revenue received within our District. Current revenue projections do not seem to reflect increases that compare to the continuing operational increases the District faces. The State continues to issue educational mandates and requirements without any funding to cover those added expenses, along with reducing federal funding.

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.

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 L. Irwin, Treasurer at Zane Trace Local School District, 946 State Route 180, Chillicothe, OH 45601 or email Tirwin@ztlisd.org.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,940,594
Property Taxes Receivable	4,889,379
Income Taxes Receivable	236,991
Intergovernmental Receivable	143,314
Materials and Supplies Inventory	19,421
Inventory Held for Resale	10,466
Prepaid Items	4,663
<i>Restricted Assets:</i>	
Equity Pooled in Cash and Cash Equivalents	561,968
Nondepreciable Capital Assets	137,750
Depreciable Capital Assets, Net	12,326,155
<i>Total Assets</i>	<u>22,270,701</u>
<u>Deferred Outflows of Resources:</u>	
Deferred Charge on Refunding	2,721
Pension	1,607,169
<i>Total Deferred Outflows of Resources</i>	<u>1,609,890</u>
<u>Liabilities:</u>	
Accounts Payable	107,685
Accrued Wages and Benefits	1,005,788
Intergovernmental Payable	575,381
Accrued Interest Payable	9,771
Claims Payable	206,600
<i>Long-Term Liabilities:</i>	
Due within One Year	571,512
Due in More Than One Year:	
Net Pension Liability	16,407,232
Other Amounts Due in More Than One Year	3,341,736
<i>Total Liabilities</i>	<u>22,225,705</u>
<u>Deferred Inflows of Resources:</u>	
Property Taxes	3,925,712
Pension	1,418,748
<i>Total Deferred Inflows of Resources</i>	<u>5,344,460</u>
<u>Net Position:</u>	
Net Investment in Capital Assets	9,319,230
<i>Restricted for:</i>	
Set-Asides	561,968
Debt Service	393,487
Other Purposes	481,230
Unrestricted	(14,445,489)
<i>Total Net Position</i>	<u><u>(\$3,689,574)</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$7,300,531	\$832,783	\$303,365	(\$6,164,383)
Special	1,349,650	0	256,210	(1,093,440)
Vocational	7,690	0	0	(7,690)
Student Intervention Services	15,349	0	0	(15,349)
Other	47,566	0	0	(47,566)
<i>Support Services:</i>				
Pupils	940,061	0	50,566	(889,495)
Instructional Staff	255,264	0	0	(255,264)
Board of Education	188,388	0	0	(188,388)
Administration	866,075	25,391	9,054	(831,630)
Fiscal	358,044	0	0	(358,044)
Operation and Maintenance of Plant	1,079,063	0	0	(1,079,063)
Pupil Transportation	792,341	0	0	(792,341)
Central	212,481	5,605	10,518	(196,358)
<i>Operation of Non-Instructional Services:</i>				
Food Service	557,505	236,460	254,010	(67,035)
Extracurricular Activities	434,119	159,398	15,792	(258,929)
<i>Debt Service:</i>				
Interest and Fiscal Charges	155,777	0	0	(155,777)
<i>Total Governmental Activities</i>	\$14,559,904	\$1,259,637	\$899,515	(12,400,752)
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				4,661,190
Debt Service				336,529
Capital Outlay				71,146
Income Taxes				315,471
Grants and Entitlements not Restricted to Specific Programs				7,428,480
Investment Earnings				6,228
Miscellaneous				191,363
<i>Total General Revenues</i>				13,010,407
Change in Net Position				609,655
<i>Net Position at Beginning of Year</i>				(4,299,229)
<i>Net Position at End of Year</i>				(\$3,689,574)

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,791,253	\$972,046	\$3,763,299
Property Taxes Receivable	4,468,755	420,624	4,889,379
Income Taxes Receivable	236,991	0	236,991
Intergovernmental Receivable	4,711	138,603	143,314
Prepaid Items	4,663	0	4,663
Inventory Held for Resale	0	10,466	10,466
Materials and Supplies Inventory	19,421	0	19,421
<i>Restricted Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	561,968	0	561,968
<i>Total Assets</i>	<u>\$8,087,762</u>	<u>\$1,541,739</u>	<u>\$9,629,501</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$54,605	\$53,080	\$107,685
Accrued Wages and Benefits	981,823	23,965	1,005,788
Intergovernmental Payable	165,163	5,174	170,337
<i>Total Liabilities</i>	<u>1,201,591</u>	<u>82,219</u>	<u>1,283,810</u>
<u>Deferred Inflows of Resources:</u>			
Property Taxes	3,682,696	345,320	4,028,016
Income Taxes	67,206	0	67,206
Unavailable Revenue	0	43,979	43,979
<i>Total Deferred Inflows of Resources</i>	<u>3,749,902</u>	<u>389,299</u>	<u>4,139,201</u>
<u>Fund Balances:</u>			
Nonspendable	24,084	0	24,084
Restricted	561,968	1,074,129	1,636,097
Assigned	312,599	0	312,599
Unassigned	2,237,618	(3,908)	2,233,710
<i>Total Fund Balances</i>	<u>3,136,269</u>	<u>1,070,221</u>	<u>4,206,490</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$8,087,762</u>	<u>\$1,541,739</u>	<u>\$9,629,501</u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

Total Governmental Funds Balances		\$4,206,490
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,463,905
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 inflows in the funds. These receivables consist of:		
Property taxes	102,304	
Income taxes	67,206	
Intergovernmental revenue	43,979	
Total		213,489
Unamortized deferred charges from the issuance of refunding bonds represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.		2,721
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	(1,179,999)	
Accretion on bonds	(112,259)	
Premium on bonds	(29,181)	
Accrued interest on bonds	(9,771)	
Capital leases	(89,216)	
Certificate of participation	(1,849,000)	
Compensated absences	(653,593)	
Total liabilities not reported in funds		(3,923,019)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	1,607,169	
Deferred Inflows - Pension	(1,418,748)	
Net Pension Liability	(16,407,232)	
Total		(16,218,811)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		(434,349)
<i>Net Position of Governmental Activities</i>		(\$3,689,574)

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, 2016

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$4,666,465	\$408,177	\$5,074,642
Income Taxes	248,265	0	248,265
Intergovernmental	7,380,212	947,298	8,327,510
Interest	6,179	49	6,228
Tuition and Fees	812,519	0	812,519
Gifts and Donations	39,366	9,100	48,466
Extracurricular Activities	58,590	152,068	210,658
Charges for Services	0	236,460	236,460
Miscellaneous	153,313	38,050	191,363
<i>Total Revenues</i>	<u>13,364,909</u>	<u>1,791,202</u>	<u>15,156,111</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	6,863,286	219,030	7,082,316
Special	980,718	316,242	1,296,960
Vocational	7,690	0	7,690
Student Intervention Services	15,204	0	15,204
Other	47,566	0	47,566
<i>Support Services:</i>			
Pupils	864,797	55,385	920,182
Instructional Staff	239,803	0	239,803
Board of Education	188,287	8	188,295
Administration	960,480	0	960,480
Fiscal	377,287	8,700	385,987
Operation and Maintenance of Plant	989,158	22,023	1,011,181
Pupil Transportation	740,516	0	740,516
Central	119,966	101,036	221,002
Operation of Non-Instructional Services	0	526,904	526,904
Extracurricular Activities	178,739	259,132	437,871
<i>Debt Service:</i>			
Principal Retirement	200,474	325,000	525,474
Interest and Fiscal Charges	104,249	40,613	144,862
<i>Total Expenditures</i>	<u>12,878,220</u>	<u>1,874,073</u>	<u>14,752,293</u>
<i>Excess of Revenues Over Expenditures</i>	<u>486,689</u>	<u>(82,871)</u>	<u>403,818</u>
<u>Other Financing Sources:</u>			
Inception of Capital Lease	104,690	0	104,690
<i>Total Other Financing Sources</i>	<u>104,690</u>	<u>0</u>	<u>104,690</u>
<i>Net Change in Fund Balances</i>	591,379	(82,871)	508,508
<i>Fund Balances at Beginning of Year</i>	<u>2,544,890</u>	<u>1,153,092</u>	<u>3,697,982</u>
<i>Fund Balances at End of Year</i>	<u>\$3,136,269</u>	<u>\$1,070,221</u>	<u>\$4,206,490</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, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$508,508
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(334,966)
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	(5,134)
Income taxes	67,206
Intergovernmental	(48,624)
Total revenues not reported in the funds	13,448
Repayment of bond, certificate of participation and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	525,474
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,435
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:	
Amortization of premium on bonds	8,337
Accretion on bonds	(19,910)
Amortization of Deferred Charges on bonds	(777)
Compensated absences	47,840
Total expenditures not reported in the funds	35,490
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	(104,690)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	943,184
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(848,595)
An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities.	(129,633)
<i>Change in Net Position of Governmental Activities</i>	\$609,655

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$4,375,835	\$4,288,033	\$4,288,033	\$0
Income Taxes	401,057	300,000	78,480	(221,520)
Intergovernmental	8,059,914	7,912,048	7,367,144	(544,904)
Interest	8,260	6,179	6,179	0
Tuition and Fees	1,040,462	778,291	778,291	0
Miscellaneous	204,868	153,246	152,678	(568)
<i>Total Revenues</i>	14,090,396	13,437,797	12,670,805	(766,992)
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	8,424,142	6,772,735	6,761,826	10,909
Special	1,219,280	980,261	980,130	131
Vocational	9,565	7,690	7,690	0
Student Intervention Services	18,911	15,204	15,204	0
Other	66,921	53,802	53,801	1
<i>Support Services:</i>				
Pupils	1,089,461	875,891	875,332	559
Instructional Staff	305,847	245,891	245,887	4
Board of Education	254,300	204,449	200,613	3,836
Administration	1,075,012	864,274	864,146	128
Fiscal	495,951	398,728	398,349	379
Operation and Maintenance of Plant	1,345,023	1,081,354	1,072,158	9,196
Pupil Transportation	1,056,841	849,665	821,703	27,962
Central	134,742	108,328	108,195	133
<i>Extracurricular Activities:</i>				
Academic Oriented Activities	12,640	10,162	10,162	0
Sport Oriented Activities	177,055	142,346	142,253	93
School and Public Service Co-Curricular Activities	3,523	2,832	2,832	0
<i>Debt Service:</i>				
Principal	230,109	185,000	185,000	0
Interest	123,968	99,666	99,666	0
<i>Total Expenditures</i>	16,043,291	12,898,278	12,844,947	53,331
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,952,895)	539,519	(174,142)	(713,661)
<u>Other Financing Uses:</u>				
Transfers Out	(199,448)	(17,844)	(17,844)	0
<i>Total Other Financing Uses</i>	(199,448)	(17,844)	(17,844)	0
Net Change in Fund Balances	(2,152,343)	521,675	(191,986)	(713,661)
<i>Fund Balance at Beginning of Year</i>	3,026,314	3,026,314	3,026,314	0
Prior Year Encumbrances Appropriated	176,590	176,590	176,590	0
<i>Fund Balance at End of Year</i>	\$1,050,561	\$3,724,579	\$3,010,918	(\$713,661)

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fund Net Position

Proprietary Fund

June 30, 2016

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$177,295
<i>Total Current Assets</i>	<u>177,295</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	206,600
Intergovernmental Payable	405,044
<i>Total Current Liabilities</i>	<u>611,644</u>
<u>Net Position:</u>	
Unrestricted	<u>(434,349)</u>
<i>Total Net Position</i>	<u><u>(\$434,349)</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Charges for Services	\$2,243,853
<i>Total Operating Revenues</i>	2,243,853
<u>Operating Expenses:</u>	
Purchased Services	110,576
Claims	2,262,910
<i>Total Operating Expenses</i>	2,373,486
<i>Change in Net Position</i>	(129,633)
<i>Net Position at Beginning of Year</i>	(304,716)
<i>Net Position at End of Year</i>	(\$434,349)

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Cash Flow

Proprietary Fund

For the Fiscal Year Ended June 30, 2016

	Governmental Activities
	Internal Service
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Charges	\$2,243,853
Cash Payments for Goods and Services	(110,576)
Cash Payments for Claims	(2,131,666)
<i>Net Cash from Operating Activities</i>	1,611
<i>Cash and Cash Equivalents at Beginning of Year</i>	175,684
<i>Cash and Cash Equivalents at End of Year</i>	\$177,295
 <u>Reconciliation of Operating Loss to Net Cash from Operating Activities:</u>	
<i>Operating Loss</i>	(\$129,633)
 <u>Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:</u>	
<i>Increase(Decrease) in Liabilities:</i>	
Claims Payable	(218,500)
Intergovernmental Payable	349,744
Total Adjustments	131,244
<i>Net Cash from Operating Activities</i>	\$1,611

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fiduciary Assets & Liabilities

Fiduciary Fund

June 30, 2016

	<u>Agency</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$46,102</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Undistributed Monies	<u>\$46,102</u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust Fund
<u>Additions:</u>	
Miscellaneous	\$600
<u>Deductions:</u>	
Payments in Accordance with Trust Agreements	650
<i>Change in Net Position</i>	(50)
<i>Net Position Beginning of Year</i>	50
<i>Net Position End of Year</i>	\$0

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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 53 non-certificated employees, 86 certificated full time teaching personnel and 4 administrative employees who provide services to 1,337 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 seven organizations, six of which are defined as jointly governed organizations and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, Coalition of Rural and Appalachian Schools, South Central Ohio Insurance Consortium, Pilasco-Ross Special Education Regional Resource Center, the School Comp Workers Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net position 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. 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, 2016

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, liabilities and deferred inflows is reported as fund balance. The following is the District's major governmental fund:

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.

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

The proprietary fund focus is on the determination of the change in net position, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical and prescription drug benefits to employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 fiduciary funds are a private purpose trust fund used to account for assets held for individuals. The District's agency funds account for student activity programs and payroll checking account.

C. Measurement Focus

Government-wide Financial Statements

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

The agency fund does not report a measurement focus as it does not report operations.

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 inflows/outflows, 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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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 non-exchange transactions must also be available before it can be recognized.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 grants.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported in the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

In addition to the liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue include intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10)

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, 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".

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 2016 amounted to \$6,179 which includes \$1,680 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, 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. See Note 18 for additional information regarding set-asides.

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 position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. 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	30 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	4 - 8 years

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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 ten 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. Pensions

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

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, 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.

M. Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position invested in capital assets, 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 position is 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 position restricted for other purposes include activities for music and athletic programs and federal and state grants restricted to expenditures for specified purposes.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

N. Fund Balance Reserves

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted or committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 fiscal year 2016.

Q. Estimates

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

R. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to 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. Any revisions that alter the total of any object appropriation must be approved by the Board of Education.

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, 2016

NOTE 3 - NEW GASB PRONOUNCEMENTS

For fiscal year 2016, the District implemented GASB Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 38”, and GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Government.” The implementation of GASB Statements Nos. 72, 73 and 76 had no effect on the prior period fund balances of the District.

NOTE 4 - 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 restricted, committed or assigned fund balance (GAAP basis).
4. Certain funds are maintained as separate funds for accounting and budgetary purposes (budget basis) but do not meet the criteria for separate reporting in the financial statements (GAAP basis) and are reported in the General Fund in accordance with GASB Statement No. 54.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING- (Continued)

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

<u>Net Change in Fund Balance</u>	<u>General</u>
GAAP Basis	\$591,379
<i>Adjustments:</i>	
Revenue Accruals	(561,285)
Expenditure Accruals	135,853
Other Financing Sources	(122,534)
Encumbrances	(258,190)
<i>Prospective Difference:</i>	
Activity of Funds Reclassified For GAAP Reporting Purposes	<u>22,791</u>
Budget Basis	<u><u>(\$191,986)</u></u>

NOTE 5 - 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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);
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;
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies; and
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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all the District deposits was \$4,548,664. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$4,362,398 of the District's bank balance of \$4,612,398 was exposed to custodial risk as discussed below, while \$250,000 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. 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 banks and pledged as a pool of collateral against all of the public deposits it holds.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in public utility) located in the District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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 the County by June 30, 2016 are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, and public utility taxes which became measurable as of June 30, 2016 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, 2016 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amounts available as an advance at June 30, 2016 were \$786,702 for the General Fund, \$12,929 for the Classroom Facilities Maintenance Nonmajor Special Revenue Fund and \$62,375 for the Bond Retirement Nonmajor Debt Service Fund.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6 - PROPERTY TAXES- (Continued)

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second - Half Collections		2016 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$186,329,690	94.29%	\$189,171,960	94.51%
Public Utility	11,288,710	5.71%	10,987,520	5.49%
Total Assessed Value	<u>\$197,618,400</u>	<u>100.00%</u>	<u>\$200,159,480</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation		\$31.70		\$31.70

NOTE 7 - SCHOOL INCOME TAXES

The District currently benefits from a 0.75% income tax, which is assessed on earned income only for all residents of the District. The District apportions all the proceeds to the General Fund. During fiscal year 2016, the District received \$248,265 from the school income tax.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2016 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follow:

	<u>Amounts</u>
General	\$4,711
<i>Nonmajor Special Revenue Funds:</i>	
Title VI-B	\$52,215
Title II-D	82,635
Title VI-R	<u>3,753</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$143,314</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9- CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2016 follows:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
<i>Governmental Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$137,750	\$0	\$0	\$137,750
<i>Depreciable Capital Assets:</i>				
Land Improvements	411,016	0	0	411,016
Buildings and Improvements	17,599,426	0	0	17,599,426
Furniture, Fixtures, Equipment and Textbooks	2,717,056	151,959	(7,535)	2,861,480
Vehicles	1,274,842	0	0	1,274,842
Total Depreciable Capital Assets	<u>22,002,340</u>	<u>151,959</u>	<u>(7,535)</u>	<u>22,146,764</u>
Total Capital Assets	<u>22,140,090</u>	<u>151,959</u>	<u>(7,535)</u>	<u>22,284,514</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(248,687)	(18,046)	0	(266,733)
Buildings and Improvements	(5,836,305)	(344,722)	0	(6,181,027)
Furniture, Fixtures, Equipment and Textbooks	(2,097,311)	(101,203)	7,535	(2,190,979)
Vehicles	<u>(1,158,916)</u>	<u>(22,954)</u>	<u>0</u>	<u>(1,181,870)</u>
Total Accumulated Depreciation	<u>(9,341,219)</u>	<u>(486,925)</u>	<u>7,535</u>	<u>(9,820,609)</u>
Depreciable Capital Assets, Net	<u>12,661,121</u>	<u>(334,966)</u>	<u>0</u>	<u>12,326,155</u>
Governmental Activities Capital Assets, Net	<u>\$12,798,871</u>	<u>(\$334,966)</u>	<u>\$0</u>	<u>\$12,463,905</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$194,133
Special	24,236
<i>Support Services:</i>	
Pupils	22,022
Instructional Staff	21,347
Administration	37,676
Fiscal	5,853
Operation and Maintenance of Plant	77,389
Pupil Transportation	65,060
Central	4,686
Operation of Non-Instructional Services	28,505
Extracurricular Activities	6,018
Total Depreciation Expense	<u><u>\$486,925</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 2016, the District contracted with Ohio School Plan for property and fleet insurance and for boiler and machinery coverage. Insurance coverage provided includes the following:

Building and Contents (\$1,000 deductible)	\$43,187,613
Boiler and Machinery (\$1,000 deductible)	No Limit
Automobile Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i>	3,000,000
Per occurrence	
Total per year	1,000,000

For fiscal year 2016, 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, 2016

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	\$3,000,000
Personal and Advertising Injury - Each Offense Limit	3,000,000
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	5,000,000
Products - Completed Operations Limit	3,000,000

Employee Benefits Liability Endorsement:

Employee Benefits Injury - Each Offense Limit	3,000,000
Employee Benefits Injury - Aggregate Limit	3,000,000

Employer's Liability and Stop Gap Endorsement:

Bodily Injury by Accident - Each Accident Limit	3,000,000
Bodily Injury by Disease - Endorsement Limit	3,000,000
Bodily Injury by Disease - Each Employee Limit	3,000,000

Educational Legal Liability Coverage (\$2,500 deductible):

Errors and Omissions Injury Limit	3,000,000
Errors and Omissions Injury Aggregate Limit	5,000,000
Employment Practices Injury Limit	3,000,000
Employment Practices Injury Aggregate Limit	5,000,000

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, 2016

NOTE 10 - RISK MANAGEMENT - (Continued)

The District participates in the SchoolComp Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, CMI, reviews each participant's claims experience and determines the rating tier for that participant.

The firm Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year the District pays an enrollment fee to the Plan to cover costs of administering the program.

The District provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), a third party administrator, who services all claims submitted by employees.

The District was self funded with the South Central Ohio Insurance Consortium effective July 1, 2012.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the District. The District had no cash balance with the fiscal agent at June 30, 2016. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The member districts are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2016, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

The claims liability of \$206,600 supported at June 30, 2016 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related 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 past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2015	\$168,400	\$2,502,194	\$2,245,494	\$425,100
2016	425,100	2,262,910	2,481,410	206,600

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$241,896 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 65 with five years of qualifying service credit, or age 55 with 25 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 65 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to STRS was \$701,288 for fiscal year 2016. Of this amount \$114,100 is reported as an intergovernmental payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,927,028	\$13,480,204	\$16,407,232
Proportion of the Net Pension Liability	0.05129650%	0.04877580%	
Pension Expense	\$242,539	\$606,057	\$848,595

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$47,803	\$616,182	\$663,985
District contributions subsequent to the measurement date			
measurement date	241,896	701,288	943,184
Total Deferred Outflows of Resources	<u>\$289,699</u>	<u>\$1,317,470</u>	<u>\$1,607,169</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$109,823	\$1,001,267	\$1,111,090
Changes in proportion and differences between District Contributions and Proportionate share of Contributions	92,248	215,410	307,658
Total Deferred Inflows of Resources	<u>\$202,071</u>	<u>\$1,216,677</u>	<u>\$1,418,748</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$943,184 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$68,746)	(\$282,677)	(\$351,423)
2018	(68,746)	(282,677)	(351,423)
2019	(68,974)	(282,675)	(351,649)
2020	52,198	247,534	299,732
Total	<u>(\$154,268)</u>	<u>(\$600,495)</u>	<u>(\$754,763)</u>

Actuarial Assumptions - SERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
U. S. Stocks	22.50	5.00
Non-U. S. Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$4,058,736	\$2,927,028	\$1,974,037

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$18,725,021	\$13,480,204	\$9,044,930

NOTE 12 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers one postemployment benefit plans.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$22,854, \$16,301 and \$28,808, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System

Plan Description – State Teachers Retirement System of Ohio (STRS Ohio) administers a pension plan that is comprised of: a Defined Benefits Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefits Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0 and \$52,578 respectively.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

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-five days of vacation per fiscal year, depending upon the length of service. 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 additional \$50 for each accumulated sick day in excess of 180 days as additional severance pay.

B. Special Retirement Benefit

The Board of Education approved a special retirement benefit program. All individuals who give written notice of their intent to retire on or before March 1 of the year they intend to retire shall receive an additional \$1,500 classified staff and \$1,750 certified staff in their final paycheck.

C. Life Insurance

The District provides life insurance to most employees through Dearborne National.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 13 – EMPLOYEE BENEFITS- (Continued)

D. Deferred Compensation

The District employees may participate in the Ohio 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 2016 for its governmental activities were as follows:

	Issue Date	Interest Rate	Principal Outstanding at July 1, 2015	Additions	Deductions	Principal Outstanding at June 30, 2016	Amount Due In One Year
<i>Governmental Activities:</i>							
2009 Refunding Bonds							
Term Bonds	2009	2.50%	\$1,345,000	\$0	\$325,000	\$1,020,000	\$335,000
Capital Appreciation Bonds		4.50%	159,999	0	0	159,999	0
Accretion on Capital Appreciation Bonds		4.50%	92,349	19,910	0	112,259	0
Premium on Bonds			37,518	0	8,337	29,181	8,338
Certificate of Participation			2,034,000	0	185,000	1,849,000	194,000
Total General Obligation Debt			3,668,866	19,910	518,337	3,170,439	537,338
Net Pension Liability							
STRS			12,093,048	1,387,156	0	13,480,204	0
SERS			2,701,582	225,446	0	2,927,028	0
Total Net Pension Liability			14,794,630	1,612,602	0	16,407,232	0
Capital Leases			0	104,690	15,474	89,216	19,550
Compensated Absences			701,433	254,492	302,332	653,593	14,624
Total Governmental Activities Long-Term Obligations			\$19,164,929	\$1,991,694	\$836,143	\$20,320,480	\$571,512

Refunding General Obligation Bonds - During fiscal year 2009, the District issued \$2,994,999 of general obligation bonds for the advance refunding of \$2,995,000 of the 1997 series bonds. The \$87,543 premium on the issuance of the refunding bonds is added against this debt and is being amortized over the life of this debt, which has the same remaining life of the refunded debt of 11 years with a final maturity of December 1, 2019. The refunding was undertaken to reduce total future debt service payments over 11 years by \$349,880 and to obtain an economic gain of \$294,607. The refunding bonds are retired through the Bond Retirement Fund using tax revenues.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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:

Calendar Year	Amount
2017	\$335,000
2018	335,000
2019	350,000

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, 2009, as follows:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2009 and thereafter	100%

The capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to state maturity. The capital appreciation bonds will mature in fiscal year 2020. The maturity amount of the bonds is \$355,000. For fiscal year 2016, \$19,910 was accreted on the capital appreciation bonds.

Principal and interest requirements to retire the School Improvement Bonds outstanding at June 30, 2016, are as follows:

2009 Refunding Bonds						
Year Ending June 30	Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$335,000	\$75,210	\$0	\$0	\$335,000	\$75,210
2018	335,000	57,498	0	0	335,000	57,498
2019	350,000	39,240	0	0	350,000	39,240
2020	0	0	159,999	195,001	159,999	195,001
Total	\$1,020,000	\$171,948	\$159,999	\$195,001	\$1,179,999	\$366,949

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The following table represents the payments required on the Certificate of Participation for the amount outstanding at June 30, 2016:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$194,000	\$93,652	\$287,652
2018	204,000	83,869	287,869
2019	214,000	73,581	287,581
2020	224,000	62,790	286,790
2021	235,000	51,492	286,492
2022-2024	<u>778,000</u>	<u>80,952</u>	<u>858,952</u>
Total	<u>\$1,849,000</u>	<u>\$446,336</u>	<u>\$2,295,336</u>

The District pays obligations related to employee compensation from the fund benefitting from their service. Capital leases are paid from the General 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 \$14,985,354 with an unvoted debt margin of \$200,159 at June 30, 2016.

The certificate of participation obligation 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, in fiscal year 2005. During 2006, the District requested all of the funds previously held by the escrow agent. The District makes semi-annual payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The certificate is renewable annually and expires in 2025. The intention of the District is to renew the certificate annually. The payments for this debt will be made from the General Fund.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 15 - CAPITAL LEASE - LESSEE DISCLOSURE

During fiscal year 2016, the District entered into a new capital lease for seven copiers in the amount of \$104,690. The District has reported \$104,690 as capital assets in the statement of net position for leased equipment.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease Payments</u>
2017	\$24,068
2018	24,068
2019	24,068
2020	24,068
2021	4,011
Total	<u>100,283</u>
Less: Amount Representing Interest	11,067
Present Value of Net Minimum Lease Payments	<u>\$89,216</u>

NOTE 16 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental fund and all other governmental funds are presented below:

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 16 – FUND BALANCES - (Continued)

As of June 30, 2016, fund balances are composed of the following:

	General	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable:</i>			
Prepays	\$4,663	\$0	\$4,663
Inventory	19,421	0	19,421
<i>Total Nonspendable</i>	<u>24,084</u>	<u>0</u>	<u>24,084</u>
<i>Restricted:</i>			
Set-Asides	561,968	0	561,968
<i>Special Revenues:</i>			
Athletics	0	79,818	79,818
Facilities Maintenance	0	263,594	263,594
Food Service	0	238,453	238,453
Local Grants	0	14,379	14,379
State Grants	0	2,700	2,700
Federal Grants	0	79,154	79,154
Debt Service	0	396,031	396,031
<i>Total Restricted</i>	<u>561,968</u>	<u>1,074,129</u>	<u>1,636,097</u>
<i>Assigned:</i>			
<i>Encumbrances for:</i>			
Regular Instruction	28,072	0	28,072
Special Instruction	60,383	0	60,383
Other Instruction	1,260	0	1,260
Pupils	11,726	0	11,726
Board of Education	12,284	0	12,284
Administration	10,069	0	10,069
Fiscal	1,595	0	1,595
Operation & Maintenance of Plant	49,759	0	49,759
Pupil Transportation	82,501	0	82,501
Central	541	0	541
Uniform School Supplies	13,825	0	13,825
Rotary	6,856	0	6,856
Public School Support	33,728	0	33,728
<i>Total Assigned</i>	<u>312,599</u>	<u>0</u>	<u>312,599</u>
<i>Unassigned</i>	<u>2,237,618</u>	<u>(3,908)</u>	<u>2,233,710</u>
Total Fund Balances	<u><u>\$3,136,269</u></u>	<u><u>\$1,070,221</u></u>	<u><u>\$4,206,490</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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 \$178,625 for services provided during the year.

B. Pickaway-Ross Career and Technology Center

The Pickaway-Ross 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, which possesses its own budgeting and taxing authority. The Center provides vocational instruction to students in both Pickaway and Ross Counties. To obtain financial information write to the Pickaway-Ross Career and Technology Center, Ben Van Horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

C. Great Seal Education Network of Tomorrow

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

D. South Central Ohio Insurance Consortium (SCOIC)

The SCOIC is a regional council of governments organized under Ohio Revised Code Section 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its members consisting of 16 entities within Fairfield, Fayette, Franklin, Hocking, Perry and Ross Counties. The governing board consists of the superintendent or other designees appointed by each of the members of the SCOIC. The participating members pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. The District does not have an ongoing interest in or ongoing financial responsibility for the SCOIC other than claims paid on behalf of the District for their employees. The District joined the SCOIC on January 1, 2002. To obtain financial information, write to the Liberty Union-Thurston Local School District, David Butler, who serves as Treasurer, at 1108 S. Main Street, Baltimore, Ohio 43105.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

E. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a Board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross Career and Technology Center, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45622.

F. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the school districts within the county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

NOTE 18 - INSURANCE PURCHASING POOLS

A. SchoolComp Worker's Compensation Group Rating Plan

The District participates in a workers' compensation program jointly sponsored by the Ohio Association of School Business Officials (OASBO) and the Ohio School Board Association (OSBA), known as SchoolComp. CompManagement, Inc. (CMI) is the program's third party administrator. SchoolComp serves to group its members' risks for the purpose of obtaining a favorable experience rating to determine its premium liability to the Ohio Bureau of Workers' Compensation (OBWC) and the Ohio Workers' Compensation Fund. This may be accomplished through participation in a group rating program or through group retrospective rating. The District has chosen to participate in the group rating program for 2016. Participation in SchoolComp is restricted to members who meet enrollment criteria and are jointly in good standing with OASBO and OSBA. OASBO and OSBA are certified sponsors recognized by OBWC.

B. Ohio School Plan

For Members with Ohio Plan policies renewing after November 1, 2005.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 18 - INSURANCE PURCHASING POOLS - (Continued)

Risk Pool Membership

The District belongs to the Ohio School Plan (the “Plan”), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools (“Members”).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator’s legal liability, automobile and violence coverage’s, modified for each member’s needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member’s specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan’s paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan’s audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2015 and 2014 (the latest information available):

	<u>2015</u>	<u>2014</u>
Assets	\$9,313,853	\$7,974,679
Liabilities	<u>(3,956,512)</u>	<u>(2,780,801)</u>
Members Equity	<u>\$5,357,341</u>	<u>\$5,193,878</u>

You can read the complete audited financial statements for the Ohio School Plan at the Plan’s website, www.ohioschoolplan.org.

NOTE 19 - STATUTORY SET-ASIDES

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

The following changes occurred in the District’s set-aside reserve accounts during fiscal year 2016:

	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2015	\$457,151
Current Year Set-aside Requirement	252,707
Current Year Offset	(72,971)
Qualifying Disbursements	<u>(74,919)</u>
Set-aside Reserve Balance as of June 30, 2016	<u>\$561,968</u>
Set-aside Reserve Balance Carried Forward to FY 17	<u>\$561,968</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 20 – ENCUMBRANCE COMMITMENTS

At June 30, 2016, the District had encumbrance commitments in the Governmental Funds as follows:

<u>Major Fund</u>	
General	\$258,190
<u>Nonmajor Funds</u>	
Food Service	30,344
Local Grants	1,363
Classroom Facilities Maintenance	22,873
Athletics and Bands	21,052
Title VIB	44
Total Nonmajor Funds	<u>75,676</u>
Total Encumbrances	<u><u>\$333,866</u></u>

NOTE 21 - OHIO DEPARTMENT OF EDUCATION FOUNDATION FUNDING

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 22 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no pending litigation that would have a material effect on the financial condition of the District.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 23 – SUBSEQUENT EVENT

Metropolitan Educational Technology Association (META) Solutions

META Solutions is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC) in February 2015. Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Voluntary Education Cooperative (SEOVEC), and the South Central Ohio Computer Association Council of Governments also merged with META Solutions on January 4, 2016. META Solutions develops, implements and supports the technology and instructional needs of schools and provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of eight members from member districts. As of the date of this financial report, the merger had not fully been completed.

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ZANE TRACE LOCAL SCHOOL DISTRICT
Schedule of the District's Proportionate Share of Net Pension Liability
Last Three Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>School Employees Retirement System of Ohio</u>			
District's Proportion of the Net Pension Liability	0.05129650%	0.0538100%	0.0538100%
District's Proportionate Share of the Net Pension Liability	\$2,927,028	\$2,701,582	\$3,174,397
District's Covered-Employee Payroll	\$2,111,578	\$1,897,576	\$1,385,393
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	138.62%	142.37%	229.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%
<u>State Teachers Retirement System of Ohio</u>			
District's Proportion of the Net Pension Liability	0.04877580%	0.04971763%	0.04971763%
District's Proportionate Share of the Net Pension Liability	\$13,480,204	\$12,093,048	\$14,405,160
District's Covered-Employee Payroll	\$5,280,307	\$5,662,277	\$5,654,500
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	255.29%	213.57%	254.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.71%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date
which is the prior fiscal year end.

ZANE TRACE LOCAL SCHOOL DISTRICT
Schedule of the District Contributions
Last Four Fiscal Years (1)

	2016	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>				
Contractually Required Contributions	\$241,896	\$278,306	\$263,004	\$191,738
Contributions in Relation to the Contractually Required Contributions	(\$241,896)	(\$278,306)	(263,004)	(191,738)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$1,727,829	\$2,111,578	\$1,897,576	\$1,385,393
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%
<u>State Teachers Retirement System of Ohio</u>				
Contractually Required Contributions	\$701,288	\$739,243	\$736,096	\$735,085
Contributions in Relation to the Contractually Required Contributions	(701,288)	(739,243)	(736,096)	(735,085)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$5,009,200	\$5,280,307	\$5,662,277	\$5,654,500
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

Zane Trace Local School District
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2016

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2016	10.555	\$ 18,488	18,488
<i>Cash Assistance:</i>				
School Breakfast Program	2016	10.553	47,993	47,993
National School Lunch Program	2016	10.555	<u>182,288</u>	<u>182,288</u>
<i>Cash Assistance Subtotal</i>			<u>230,281</u>	<u>230,281</u>
Nutrition Cluster Total			<u>248,769</u>	<u>248,769</u>
Total U.S. Department of Agriculture			<u>248,769</u>	<u>248,769</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	2015	84.010	2,000	-
Title I Grants to Local Educational Agencies	S010A150035	84.010	<u>174,980</u>	<u>177,637</u>
			<u>176,980</u>	<u>177,637</u>
Special Education - Grants to States	2015	84.027	87,602	103,280
Special Education - Grants to States	H027A150111	84.027	<u>237,590</u>	<u>219,690</u>
			<u>325,192</u>	<u>322,970</u>
Improving Teacher Quality State Grants	2015	84.367	6,496	10,316
Improving Teacher Quality State Grants	S367A150034	84.367	<u>43,468</u>	<u>41,045</u>
			<u>49,964</u>	<u>51,361</u>
Total U.S. Department of Education			<u>552,136</u>	<u>551,968</u>
Total Federal Awards			\$ <u>800,905</u>	<u>800,737</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Zane Trace Local School District (the "School District") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the entitlement value of the commodities received and disbursed.

NOTE D - NUTRITION CLUSTER

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Zane Trace Local School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Zane Trace Local School District ("School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described as item 2016-001 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Zane Trace Local School District's Response to Finding

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2016

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Zane Trace Local School District:

Report on Compliance for Each Major Federal Program

We have audited Zane Trace Local School District's ("School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2016

Zane Trace Local School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued :	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	yes
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	none
Identification of major programs:	
<i>Nutrition Cluster:</i>	
CFDA 10.553 – School Breakfast Program	
CFDA 10.555 – National School Lunch Program	
CFDA 84.010 – Title I Grants to Local Educational Agencies	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

2016-001 – Audit Adjustments

Condition: During the course of our audit, we identified misstatements for the year under audit that were not initially identified by the School District's internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in operation exists when a properly designed control does not operate as designed. In this case, the internal controls over the preparation and review of the School District's financial statements did not operate as designed and we consider this a significant deficiency.

Throughout the year, the School District maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. There was one audit adjustment to the cash-basis books to correct a posting error between intergovernmental revenue and tuition and fees. There were two additional adjustments required to the GAAP statements relating to income tax revenue and receivable and insurance claims expense. The unadjusted differences included changes to the GAAP statements relating to accrued wages and benefits and net position classification.

We recommend the School District enhance its internal controls over financial reporting with steps such as management analysis of the financials compared to prior years and improved communication with its hired consultant to ensure the preparation of reliable financial statements in conformity with generally accepted accounting principles.

Management Response: Our school district is currently and always does practice sound financial reporting. The district did not make any adjustments or reclassifications to the June 30, 2016 financial statements. It is our belief and was assumed that we reported all information correctly, with a coding error included. The GAAP report which is prepared by the GAAP Consulting Firm had the funds classified incorrectly. Due to a rush of timelines between the GAAP Consulting Firm and the Auditors preparing the audit, the Auditors had the report and were working with it before the District had reviewed a draft copy. Therefore, it is possible, had the District been able to review the report in a timely fashion that these errors could have been corrected before the audit had been completed. The District intends on meeting with the GAAP Consultants to review and verify that we are working with and practicing the same accounting procedures.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Schedule of Prior Audit Findings

Finding 2015-001 – Audit Adjustments

We identified misstatements that were not initially identified by the School District's internal control over financial reporting and required audit adjustments.

Status: Finding repeated as 2016-001.



Dave Yost • Auditor of State

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
JANUARY 10, 2017