Zane State College

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.
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Board of Trustees
Zane State College
1555 Newark Rd.
Zanesville, OH 43701

We have reviewed the Independent Auditor's Report of the Zane State College, Muskingum County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. 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 State College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 14, 2005

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ZANE STATE COLLEGE

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Zane State College (the College), as of and for the year ended June 30, 2004, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 17, 2004

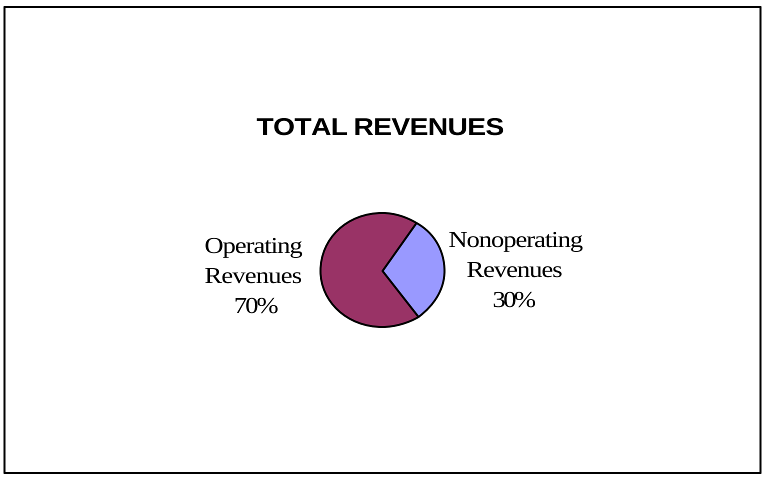
Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2004

The discussion and analysis of Zane State College's financial statements provides an overview of the College's financial activities for the year ending June 30, 2004. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the preparers. The discussion and analysis contains financial activities of Zane State College.

Financial Highlights

Zane State College's financial position, as a whole, worsened during the fiscal year ending June 30, 2004. Its combined net assets decreased $(530,638) or 3% from the previous year.

The following chart provides a graphic breakdown of revenues by category for the fiscal year ending June 30, 2004:



In the fiscal year ending June 30, 2004, expenses exceeded revenues, creating the decrease in net assets of $(530,638) (compared to a $661,121 decrease last year).

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on the College as a whole and presents a long-term view of the College's finances. The following activities are included in the College's basic financial statements:

- **Primary Institution (College):** Most of the programs and services generally associated with a university fall into this category, including instruction, research, public service, and support services.
- **Component Unit (Zane State College):** Most of the College's fund raising and scholarship activity fall into this category.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is Zane State College as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the opposite occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Zane State College's operating results.

These two statements report Zane State College's net assets and changes in them. Zane State College's net asset amount – the difference between assets and liabilities – is one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving. However, several non-financial factors are relevant as well, such as the trend and quality of applicants, freshman class size, student retention, building condition, and campus safety, to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2004

Net Assets Changes-Primary Institution

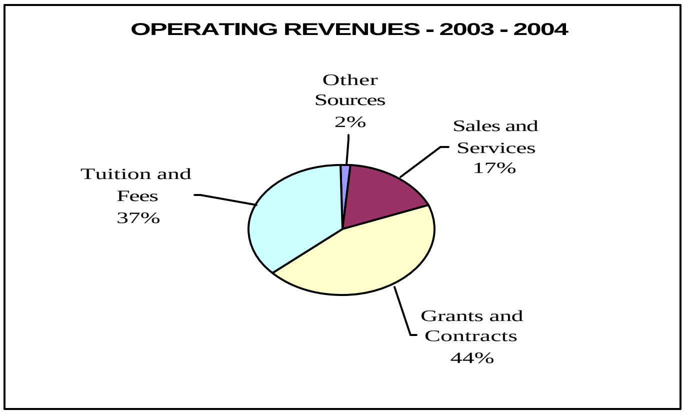
	Restated* 6/30/2003	6/30/2004	Net Change
ASSETS			
Current Assets:			
Cash equivalents	$ 4,116,298	$ 4,158,975	$ 42,677
Accounts receivable, net	1,315,738	1,274,197	(41,541)
Accounts receivable - vendors	66,891	186,987	120,096
Grants receivable	354,015	338,687	(15,328)
Loans	735	135	(600)
Inventory	285,962	234,540	(51,422)
Total current assets	6,139,639	6,193,521	53,882
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	13,798,258	13,205,032	(593,226)
Total noncurrent assets	13,798,258	13,205,032	(593,226)
TOTAL ASSETS	$ 19,937,897	$ 19,398,553	$ (539,344)
LIABILITIES			
Current Liabilities:			
Accrued wages and benefits	$ 579,457	$ 536,709	(42,748)
Vouchers payable	576,275	510,051	(66,224)
Compensated absences	42,701	39,232	(3,469)
Capital lease payable - current portion	84,867	56,230	(28,637)
Deposits held in custody for others	153,898	35,768	(118,130)
Deferred revenue	393,880	486,511	92,631
Total current liabilities	1,831,078	1,664,501	(166,577)
Noncurrent Liabilities:			
Compensated absences	364,098	334,518	(29,580)
Capital lease payable	97,704	285,155	187,451
Total noncurrent liabilities	461,802	619,673	157,871
TOTAL LIABILITIES	2,292,880	2,284,174	(8,706)
NET ASSETS			
Invested in capital assets, net of related debt	13,615,687	12,863,647	(752,040)
Restricted:			
Expendable:			
Loans	736	736	0
Instructional Department uses	488,126	388,935	(99,191)
Capital projects	1,510,888	1,258,700	(252,188)
Unrestricted	2,029,580	2,602,361	572,781
Total net assets	17,645,017	17,114,379	(530,638)
TOTAL LIABILITIES AND NET ASSETS	$ 19,937,897	$ 19,398,553	$ (539,344)

*As Restated, See Note 3

Net Assets Changes - Component Unit – Zane State Foundation
FY 2003 versus 2004

	Restated* Foundation 6/30/2003	Foundation 6/30/2004	Net Change
ASSETS			
Current Assets:			
Cash equivalents	$ 1,717	$ 1,363	$ (354)
Total current assets	1,717	1,363	(354)
Noncurrent Assets:			
Endowment Investments	1,855,607	1,930,474	74,867
Total noncurrent assets	1,855,607	1,930,474	74,867
TOTAL ASSETS	$ 1,857,324	$ 1,931,837	$ 74,513
NET ASSETS			
Restricted:			
Nonexpendable:			
Scholarships	1,143,729	1,148,387	4,658
Expendable:			
Scholarships	343,594	388,373	44,779
Unrestricted	370,001	395,077	25,076
Total net assets	1,857,324	1,931,837	74,513
TOTAL LIABILITIES AND NET ASSETS	$ 1,857,324	$ 1,931,837	$ 74,513

* As Restated, See Note 3



	Restated 6/30/2003	Primary Institution 6/30/2004	Net Change
Operating Revenues			
Tuition and fees	$ 3,542,003	$4,202,593	$ 660,590
State grants and contracts	740,596	1,246,740	506,144
Federal grants and contracts	3,175,292	3,504,362	329,070
Local grants	252,163	292,934	40,771
Private gifts and grants	5,785	10,000	4,215
Auxiliary services	2,064,887	2,024,657	(40,230)
Other	109,932	182,082	72,150
Total operating revenues	9,890,658	11,463,368	1,572,710
Operating Expenses	15,951,441	17,088,586	1,137,145
Net operating revenues (expenses)	(6,060,783)	(5,625,218)	435,565
Nonoperating Revenues (Expenses)			
State Appropriations	5,158,578	5,080,223	(78,355)
Investment income	57,256	45,882	(11,374)
Other Non-operating revenues (expenses)	(24,668)	(31,525)	(6,857)
Net Non-operating revenues	5,191,166	5,094,580	(96,586)
Income (loss) before other revenues, expenses, gains or losses	(869,617)	(530,638)	338,979
Capital appropriations	208,496	0	(208,496)
Increase in Net Assets	(661,121)	(530,638)	130,483
Net Assets, beginning of year	18,306,138	17,645,017	(661,121)
Net Assets, end of year	$ 17,645,017	$ 17,114,379	$ (530,638)

Tuition and fees increased by 19% which is the result of the number of students increasing along with an increase in tuition of $6. State appropriations and capital appropriation decreased by 5% primarily due to the loss in state funding due to budget cuts in fiscal year 2004. Investment income decreased from $57,256 in 2003 to $45,882 in 2004. This decrease is largely due to lower interest rates caused by an economic downturn in our economy.

Operating Expenses for FY2003 Versus FY2004
Zane State College Foundation

	Foundation 6/30/2003	Foundation 6/30/2004	Net Change
Operating Revenues			
State and local appropriations	41,343	42,000	657
Contributions	46,491	69,014	22,523
Fund raising	15,720	0	(15,720)
Total operating revenues	103,554	111,014	7,460
Operating Expenses	62,711	58,688	(4,023)
Net operating revenues (expenses)	40,843	52,326	11,483
Nonoperating Revenues (Expenses)			
Investment income	30,454	75,628	45,174
Scholarships	(76,310)	(53,441)	22,869
Net nonoperating revenues (expenses)	(45,856)	22,187	68,043
Increase in Net Assets	(5,013)	74,513	79,526
Net Assets, beginning of year	1,862,337	1,857,324	(5,013)
Net Assets, end of year	$ 1,857,324	$ 1,931,837	$ 74,513

Operating Expenses for FY2003 Versus FY2004
Primary Institution

	Restated 6/30/2003	6/30/2004	Net Change
Operating Expenses			
Educational and General			
Instructional	$ 4,651,236	$ 5,112,937	$461,701
Academic support	1,286,901	832,307	(454,594)
Student services	3,766,197	4,717,448	951,251
Institutional support	1,973,414	2,580,199	606,785
Depreciation	797,262	802,127	4,865
Student aid	4,312	4,981	669
Other expenses	12,894	0	(12,894)
Operation and maintenance of plant	1,243,720	992,084	(251,636)
Total Educational and General	13,735,936	15,042,083	1,306,147
Auxiliary Enterprises			
Bookstore	2,152,130	1,973,669	(178,461)
Other auxiliary	63,375	72,834	9,459
Total Auxiliary Enterprises	2,215,505	2,046,503	(169,002)
Total Operating Expenses	$ 15,951,441	$ 17,088,586	$1,137,145

Operating Expenses for FY2003 Versus FY2004
Component Unit – Zane State College Foundation

	6/30/2003	6/30/2004	Net Change
Operating Expenses			
Educational and General			
General and administrative	$ 62,711	$ 58,688	$ (4,023)
Total Educational and General	62,711	58,688	(4,023)
Total Operating Expenses	$ 62,711	$ 58,688	$ (4,023)

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps the user assess:

- an entity's ability to generate future net cash flows
- its ability to meet its obligations as they come due
- its need for external financing

Cash Flows
FY 2003 Versus FY 2004

	Primary Institution 6/30/2003	Primary Institution 6/30/2004	Net Change
Cash provided (used) by:			
Operating activities	$ (5,519,004)	$ (4,844,045)	$674,959
Noncapital financing activities	5,158,578	5,080,223	(78,355)
Capital and related financing	32,878	(239,383)	(272,261)
Investing activities	57,256	45,882	(11,374)
Net increase (decrease) in cash	(270,292)	42,677	312,969
Cash, beginning of year	4,386,590	4,116,298	(270,292)
Cash, end of year	$ 4,116,298	$ 4,158,975	$ 42,677

Capital and Debt Administration

Capital Assets

At June 30, 2004, the College had some $13,205,032 invested in capital assets, net of accumulated depreciation of $8,545,490. Depreciation charges totaled $802,127 for the current fiscal year. Details of these assets for the two years are shown below:

Capital Assets, Net, at Year-End Primary Institution

	6/30/2003	6/30/2004	Net Change
Land and land improvements	$ 293,225	$ 275,775	($17,450)
Buildings and improvements	12,162,985	11,633,977	(529,008)
General infrastructure	253,943	242,982	(10,961)
Machinery and equipment	613,315	637,364	24,049
Computers	112,475	23,101	(89,374)
Computer Software	325,524	361,637	36,113
Vehicles	11,135	4,730	(6,405)
Library books and materials	25,656	25,466	(190)
Total Capital Assets, Net	$ 13,798,258	$ 13,205,032	$ (593,226)

There were no major additions during fiscal year 2004. The decrease of $593,226 in capital assets was attributable to depreciation exceeding additional purchases as well as disposal of machinery and equipment.

More detailed information regarding the College's capital assets is presented in Note 8 to the financial statements.

Debt

At year-end 2004, the College had $341,385 in debt outstanding versus $182,571 in the previous year. The table below summarizes these amounts by type of debt instrument.

	6/30/03	6/30/04	Net Change
Lease Obligations	$182,571	$341,385	$158,814

More detailed information about the College's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors that will Affect the Future

The economic position of Zane State College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state budget projects a reduction in the funding to the College in the next year. In response to this cutback and due to scarce public resources in general, the Board of Regents has reduced Fiscal Year 2005 State Appropriation to the College by 1% ($45,000).

The College announced tuition and fees increases averaging 5.6% starting Summer Quarter 2004. The College also expects enrollment to increase by approximately 8% for a total tuition and fees increase estimated at $250,000.

The College estimates $150,000 increase in employee wages and benefits with an additional increase of $50,000 for health care insurance costs in Fiscal Year 2005.

Despite the reduction in state funding and the increasing employee wages and benefits. The College's current financial plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services.

Contacting the College's Financial Management

This financial report is designed to provide the Ohio Department of Education, our citizens, taxpayers, and investors and creditors with a general overview of the College's accountability for the money it received. If you have questions about this report, or need additional financial information, contact Albert Brown, Vice–President for Business Services-Treasurer, at Zane State College, 1555 Newark Road, Zanesvillle, Ohio 43701.

ZANE STATE COLLEGE

STATEMENT OF NET ASSETS
For the Fiscal Year Ended June 30, 2004

	Primary Institution Zane State College	Component Unit Zane State College Foundation
ASSETS		
Current Assets:		
Cash equivalents	$ 4,158,975	$ 1,363
Accounts receivable, net	1,274,197	0
Accounts receivable - vendors	186,987	0
Grants receivable	338,687	0
Loans	135	0
Inventory	234,540	0
Total current assets	6,193,521	1,363
Noncurrent Assets:		
Capital assets, net	13,205,032	0
Endowment investments	0	1,930,474
Total noncurrent assets	13,205,032	1,930,474
TOTAL ASSETS	$ 19,398,553	$ 1,931,837
LIABILITIES		
Current Liabilities:		
Accrued wages and benefits	536,709	0
Vouchers payable	510,051	0
Compensated absences	39,232	0
Capital lease payable	56,230	0
Deposits held in custody for others	35,768	0
Deferred revenue	486,511	0
Total current liabilities	1,664,501	0
Noncurrent Liabilities:		
Compensated absences	334,518	0
Capital lease payable	285,155	0
Total noncurrent liabilities	619,673	0
TOTAL LIABILITIES	2,284,174	0
NET ASSETS		
Invested in capital assets, net of related debt	12,863,647	0
Restricted:		
Nonexpendable:		
Scholarships	0	1,148,387
Expendable:		
Scholarships	0	388,373
Loans	736	
Instructional Department uses	388,935	0
Capital projects	1,258,700	0
Unrestricted	2,602,361	395,077
Total net assets	17,114,379	1,931,837
TOTAL LIABILITIES AND NET ASSETS	$ 19,398,553	$ 1,931,837

See accompanying notes to the basic financial statements.

ZANE STATE COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2004

	Primary Institution Zane State College	Component Unit Zane State College Foundation
REVENUE:		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of $273,949)	$ 4,202,593	$ 0
Local grants	292,934	0
Local appropriations	0	42,000
Federal grants and contracts	3,504,362	0
State grants and contracts	1,246,740	0
Private gifts and grants	10,000	0
Contributions	0	69,014
Auxiliary Enterprises:		
Bookstore	1,955,051	0
Campus security	69,606	0
Other sources	182,082	0
Total revenues	11,463,368	111,014
EXPENSES:		
Operating Expenses:		
Educational and General:		
Instructional	5,112,937	0
Academic support	832,307	0
Student services	4,717,448	0
Institutional support	2,580,199	0
Depreciation	802,127	0
Student aid	4,981	0
General & Administrative	0	58,688
Operation and maintenance of plant	992,084	0
Total Educational and General	15,042,083	58,688
Auxiliary Enterprises		
Bookstore	1,973,669	0
Other auxiliary	72,834	0
Total Expenses	17,088,586	58,688
Operating Income (Loss)	(5,625,218)	52,326
NONOPERATING REVENUES (EXPENSES):		
State appropriations	5,080,223	0
Investment income	45,882	75,628
Interest on Capital Asset-Related Debt	(15,362)	0
Loss on Sale of Fixed Assets	(16,163)	0
Scholarships	0	(53,441)
Net nonoperating revenues (expenses)	5,094,580	22,187
Increase (Decrease) in Net Assets	(530,638)	74,513
Net Assets, Beginning of Year, Restated- Note 3	17,645,017	1,857,324
Net Assets, End of Year	$ 17,114,379	$ 1,931,837

See accompanying notes to the basic financial statements.

ZANE STATE COLLEGE

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2004

	Primary Institution
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities:	
Tuition and fees	$4,244,134
Federal Grants and contracts	3,481,333
Local grants	263,612
State grants	1,313,879
Payments to suppliers	(7,949,482)
Payments to employees for wages and benefits	(8,332,110)
Book Store	1,955,051
Campus Security	69,606
Other receipts	109,932
Net cash used by operating activities	(4,844,045)
Cash Flows from Non-Capital and Related Financing Activities:	
State appropriations	5,080,223
Net cash provided by non-capital and related financing activities	5,080,223
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(87,179)
Principal paid on capital leases	(136,842)
Interest paid on capital leases	(15,362)
Net cash used by capital and related financing activities	(239,383)
Cash Flows from Investing Activities:	
Interest on investments	45,882
Net cash provided by investing activities	45,882
Net increase in cash and cash equivalents	42,677
Cash and Cash Equivalents, beginning of year	4,116,298
Cash and Cash Equivalents, end of year	$4,158,975
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	(5,625,218)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	802,127
Change in Assets and Liabilities:	
Accounts Receivable, vendors	(120,096)
Grant Receivable	15,328
Receivables, net	41,541
Inventories	51,422
Accrued wages and benefits	(42,748)
Compensated absences	(33,049)
Deferred revenue	92,631
Vouchers payable	(26,583)
Loans	600
Net cash used by operating activities	($4,844,045)
Non Cash Transactions	
Equipment	$341,385
Capital Lease	($341,385)

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE COLLEGE AND REPORTING ENTITY

On September 19, 1969, the State of Ohio Board of Regents approved the charter of the Muskingum Area Technical Institute. In 1975, the College name was changed to the Muskingum Area Technical College. In 2004, the College name was changed to Zane State College (the College). The College is a technical institute as defined by Section 3357.01 of the Ohio Revised Code and is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio. The College exposes students to job training leading to employment upon graduation.

The College's official service area consists of three counties: Muskingum, Guernsey, and Noble. However, a significant number of students come from Morgan, Coshocton, and Perry counties.

In 1971 working with the Ohio Board of Regents, the Muskingum Area Technical Institute and the Ohio University began a cooperative effort to provide the community with a coordinated state-assisted higher education complex of academic-technical programs and physical facilities. Planning for a new campus was accelerated after the Ohio General Assembly, on June 12, 1972, approved a 3 million dollar appropriation for the construction of a new technical college facility. In March 1974 a master plan for the Muskingum Area Technical Institute and Ohio University-Zanesville campus was completed. This plan has guided campus development to the present time. An agreement for inter-institutional cooperation and coordination was signed on June 15, 1975, by Ohio University-Zanesville and Muskingum Area Technical Institute.

The College operates under a nine member appointed Board of Trustees, of which three are appointed by the Governor of the State of Ohio, and are responsible for the provision of public education to its student body.

The Zane State College Foundation is not a part of the primary government of the College, but due to its relationship with the College, it is discretely presented as a component unit within the College's financial statements. The Foundation is a non-profit, tax-exempt organization operated exclusively to provide support for the general educational needs of the College. Specific disclosures relating to the component unit can be found in Note 11.

The College is associated with an insurance purchasing pool, the Ohio College Association Workers' Compensation Group Rating Plan. This organization is presented in Note 14 to the financial statements.

Management believes the financial statements included in this report represent all of the funds of the College over which the College has the ability to exercise direct operating control.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

B. Basis of Accounting

The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 College must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the College on a reimbursement basis.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Cash and Cash Equivalents

This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts and savings accounts. For purposes of the statement of cash flows and presentation on the statement of net assets, all investments with original maturities of three months or less at the time they are purchased by the College are presented on the financial statements as cash equivalents.

D. Investments

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Receivables

Receivables consist of tuition and fees and charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, private sources in connections with reimbursements of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. Inventories

Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

G. Capital Assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of one or more years. Library books are significant in the aggregate and are therefore also capitalized. 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for building and infrastructure, 5 to 10 years for equipment, 5 years for vehicles, and 5 years for library books and materials. Improvements are depreciated over the remaining useful lives of the related capital assets.

The College's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2003, no material interest costs were incurred on construction projects for Zane State College.

H. Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Compensated Absences

The College follows the provisions of Governmental Accounting Standards Board Statement No. 16, "*Accounting for 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 College will compensate the employees for the benefits through paid time off or some other means. The College 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 College has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the College's termination policy. The College records a liability for accumulated unused sick leave for certified employees, administrators, and classified employees after five years of current service with the College.

J. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, related to the subsequent accounting period. The effect of not allocating the summer term between fiscal years does not have a significant impact on the financial statement presentation.

K. Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Scholarship Allowances

Student tuition and fees revenue and certain other revenues from College charges are reported net of scholarship allowances in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship allowance is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance discount.

M. Revenue and Expense Recognition

The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying statement of Revenues, Expenses, and Changes in Net Assets.

The College's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Budgetary Process

Annually, the Business Office develops a balanced budget for the College based on projected expenditures from department directors and anticipated revenue, including tuition and fees and the subsidy from the Ohio Board of Regents. The board of trustees approves the budget.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Income Taxes

Income taxes have not been provided on the general operations of the College because, as a state institution, its income is exempt from Federal income taxes under Section 115 of the Internal Revenue Code.

P. Use of Estimates

Management of the College has made estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

NOTE 3 – NET ASSET RESTATEMENT

The college had errors related to its payables in the prior year's statement of net assets. For the Foundation, investments were erroneously overstated in the prior year's statement of net assets.

	Primary Institution	Foundation
June 30, 2003 Fund Equity as Previously Reported	$17,684,658	$1,872,040
Error in Prior Period	(39,641)	(14,716)
July 1, 2003 Net Assets as Restated	$17,645,017	$1,857,324

NOTE 4 – STATE SUPPORT

The College is a state-assisted institution of higher education that receives a student-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the Ohio Board of Regents.

In addition to the student subsidies, the State of Ohio provides the funding for the construction and renovation of major plant facilities on the College's campus. The funding is obtained from the issuance of special obligation bonds issued by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility to the Ohio Board of Regents. Upon completion of a facility, the Board of Regents turns over control to the College, which capitalizes the cost thereof.

Neither the obligation for special obligation bonds issued by OPFC, nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These costs are currently being funded through appropriations to the Board of Regents by the General Assembly.

The facilities are not pledged as collateral for the special obligation bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the state.

NOTE 4 – STATE SUPPORT (Cont.)

A. Construction in progress for any portion of the facilities being financed by state agencies for use by the College is not recorded on the College's books of account until such time as the facility is completed.

B. Outstanding debt issued by OPFC is not included on the College's balance sheet. In addition, the appropriations by the General Assembly to the Board of Regents for payment of debt service are not reflected as appropriation revenue received by the College, and the related debt service payments are not recorded in the College's accounts.

NOTE 5 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the College 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 College 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 Trustees has identified as not required for use within the current two 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 monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

Interim monies to 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 State Treasury or any other obligation guaranteed as to principal or 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;

NOTE 5 – DEPOSITS AND INVESTMENTS (Cont.)

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the College, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 2004, the College's investments were limited to certificates of deposit and money market accounts.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the College's deposits was $4,158,975 and the bank balance was $4,381,709. Of the bank balance, $200,000 was covered by federal depository insurance and $4,181,709, was uninsured and uncollateralized. The College obtained Public Funds Pooled collateral in compliance with Ohio Revised Code Section 135.181 sufficient to cover depository balances. However, GASB Pronouncement No. 3 does not recognize these collateral pools when assessing investment risk. Although the securities serving as collateral were held by the pledging financial institution's trust department in the College's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the College to a successful claim by the Federal Deposit Insurance Corporation.

The classification of cash and cash equivalents, and investments on the Statement of Net Assets is based on criteria set forth in GASB Statement No. 9, "*Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*".

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,287,310	$ (13,113)	$ 1,274,197
Intergovernmental	338,687	0	338,687
Vendor	186,987	0	186,987
Total Accounts Receivable	$ 1,812,984	$ (13,113)	$ 1,799,871

NOTE 7 – DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board to authorize for expenditure the new appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the College's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. All expenditures must be approved by the Board.

At June 30, 2004, there was no net appreciation on donor-restricted assets available to be spent.

NOTE 8 – CAPITAL ASSETS

A summary of the changes in the capital assets is presented as follows:

	Balance at 7/1/2003	Increases	Decreases	Balance at 6/30/2004
Capital Assets, Non-Depreciable:				
Land	$293,225	$0	($17,450)	$275,775
Total Non-Depreciable	293,225	0	(17,450)	275,775
Capital Assets, Depreciable:				
Buildings	18,065,565	0	0	18,065,565
General Infrastructure	274,040	0	0	274,040
Machinery and Equipment	1,249,588	368,053	(380,463)	1,237,178
Computers	964,755	0	0	964,755
Computer Software	325,600	45,235	0	370,835
Motor Vehicles	83,040	0	0	83,040
Library books	464,058	15,276	0	479,334
Total Depreciable	21,426,646	428,564	(380,463)	21,474,747
Less Accumulated Depreciation:				
Buildings	(5,902,580)	(529,008)	0	(6,431,588)
General Infrastructure	(20,097)	(10,961)	0	(31,058)
Machinery and Equipment	(636,273)	(141,791)	178,250	(599,814)
Computers	(852,280)	(89,374)	0	(941,654)
Computer Software	(76)	(9,122)	0	(9,198)
Motor Vehicles	(71,905)	(6,405)	0	(78,310)
Library books	(438,402)	(15,466)	0	(453,868)
Total Depreciation	(7,921,613)	(802,127)	178,250	(8,545,490)
Total Capital Assets, Depreciable, net	13,505,033	(373,563)	(202,213)	12,929,257
Capital Assets, net	$13,798,258	($373,563)	($219,663)	$13,205,032

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

	Balance July 1, 2003	Additions	Reductions	June 30, 2004	Current Portion
Compensated Absences	$ 406,799	$ 0	$ (33,049)	373,750	$ 39,232
Lease Obligations	182,571	341,385	(182,571)	341,385	56,230
Long-Term Liabilities	$ 589,370	$ 341,385	$ (215,620)	$ 715,135	$ 95,462

NOTE 10 – CAPITAL LEASES

The College leases copiers under capital leases. Capital leases are capitalized as capital assets, net, with a corresponding liability.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2004:

Year Ending December 31,		
2005	$	86,094
2006		86,094
2007		86,094
2008		86,094
2009		86,094
Minimum lease payments		430,470
Less: Amount representing interest at the College's incremental borrowing rate of interest		(89,085)
Present value of minimum lease payments	$	341,385

NOTE 11 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION

Description of the Foundation

The Zane State College Foundation (hereinafter "the Foundation") is a nonprofit organization as determined by Section 501(c)(3) of the Internal Revenue Code, further, the Foundation is organized under Section 509(a)(1) and 170(b)(1)(a)(iv) of the Internal Revenue Code.

The Foundation is organized and shall be operated exclusively for directorial, scientific or charitable purposes by conducting or supporting activities which benefit, or carry out the purpose of Zane State College, a state institution of higher learning, authorized under Chapter 3357 of the Ohio Revised Code including, but not limited to the creation of an endowment fund for annual scholarships in each technology program, the improvement of technical laboratory equipment, and opportunities for the professional development of college employees.

NOTE 11–COMPONENT UNIT DISCLOSURES-ZANE STATE COLLEGE FOUNDATION (Cont.)

Solely for the above purpose, the Foundation is empowered to exercise all rights and powers conferred by the laws of the State of Ohio upon nonprofit corporations, including, but not limited to:

A. To accept, acquire, receive, take, and hold by bequest, devise, grant, gift, purchase, exchange, lease, transfer, judicial order or decree, or otherwise, for any of its objects and purposes, any property, both real and personal, whatever kind, nature or description and wherever situated;

B. To seal, exchange, convey, mortgage, lease, transfer, or otherwise dispose of any such property, both real and personal, as the objects and purposes of the Foundation may require, subject to such limitations as may be prescribed by law;

C. To invest and reinvest its funds in such savings account, stock, bonds, debentures, mortgages, or in such other securities, investments, and property as the Board of Directors shall deem advisable, subject to the limitations and conditions contained in any bequest, devise, grant, or gift, provided such limitations and conditions are not in conflict with those provisions of the Internal Revenue Code and its regulations dealing with organizations exempt from taxation under Section 501(c)(3), as such provisions now exist or as they may hereafter be amended.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, issued in June and November 1999. Since the Foundation is a component unit of the College, it is required to apply these Statements the same as the College.

Summary of Significant Accounting Policies

Net Asset Classifications

In the accompanying financial statements, assets with similar characteristics have been combined in the following net asset groups:

Unrestricted Assets – These assets are used for continuing activities, scholarships, and operations of the Foundation at the discretion of the Foundation's governing body.

Restricted: Expendable – Temporarily Restricted Assets – A donor imposed restriction that permits the Foundation to expend the donated assets as specified by the donor. The restriction remains in effect until satisfied by either the passage of time or by actions of the Foundation. The Foundation's expenditures of temporarily restricted assets are restricted to scholarships and faculty professional development, improvement to laboratory facilities or other uses as deemed appropriate by the Foundation Board.

NOTE 11–COMPONENT UNIT DISCLOSURES-ZANE STATE COLLEGE FOUNDATION (Cont.)

Restricted: Non-Expendable – Permanently Restricted Assets – A donor imposed restriction that stipulates that resources be maintained permanently but permits the Foundation to expend part or all of the income or other economic benefit derived from the donated asset. The Foundation's income derived from these resources is restricted to expenditures on scholarships.

Income Tax Status

The Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Investments

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

Deposits: At June 30, 2004, the carrying amount and bank balance of the Foundation's deposits were $208,694. $101,367 was covered by Federal Deposit Insurance. The remainder was uninsured and uncollateralized.

Investments: GASB Statement No. 3 requires the College to categorize investments to give an indication of the level of risk assumed by the Foundation at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Foundation's name. The Foundation's $131,880 investment in the cash management fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

June 30, 2004	Category 2	Carrying/Fair Value
Corporate Bonds	$ 274,602	$ 282,632
Equity Investments	242,716	306,737
Government Securities	398,876	393,166
Bond Mutual Funds	640,000	608,728
Money Market Mutual Funds	0	131,880
Total Investments	$ 1,556,194	$ 1,723,143

Investments are reported at their fair market value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at fair value based upon the most recently reported bid prices. Securities with original maturities of three months or less are reported as cash equivalents.

NOTE 11–COMPONENT UNIT DISCLOSURES-ZANE STATE COLLEGE FOUNDATION (Cont.)

The net gain or loss on the investment portfolio is determined by calculating the differences between the market value of investment assets held at the end of the year and their market value as of the beginning of the year. Investment expense of $9,107 has been netted against investment earnings.

A reconciliation between the classifications of cash and cash equivalents and investments on the Statement of Net Assets and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	$ 1,363	$ 1,930,474
Investments:		
Certificates of Deposit	207,331	(207,331)
GASB Statement No. 3	$ 208,694	$ 1,723,143

Donated Facilities/Operating Expenses

The Foundation occupies office space at Zane State College located at 1555 Newark Road, Zanesville, Ohio. No rent is paid by the Foundation. Zane State College pays operating expenses for the Foundation. The value of the operating expenses paid by the College was $42,000. This amount has been recorded in the financial statements as a contribution to and an expense from unrestricted net assets.

Net Assets Released from Restrictions

Net assets were released from donor restrictions in fiscal year 2004 by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. The Foundation distributed $53,441 in scholarships that related to the satisfaction of these donor restrictions.

NOTE 12 – PENSION AND RETIREMENT PLANS

The employees of Zane State College are covered by the School Employees Retirement System of Ohio (SERS), the State Teachers Retirement System of Ohio (STRS) or an Alternative Retirement Plan (ARP). The State of Ohio accounts for the activities of the SERS and STRS systems and amounts of these funds are not reflected in the accompanying financial statements.

School Employees Retirement System

The College contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling 614-222-5853.

NOTE 12 – PENSION AND RETIREMENT PLANS (Cont.)

Plan members are required to contribute 10% of their annual covered salary and the College is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of the plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The College's required contributions for the fiscal years ended June 30, 2004, 2003 and 2002 were $201,622, $281,165, and $262,835, respectively. 100% has been contributed for fiscal years 2004, 2003 and 2002.

State Teachers Retirement System

The College contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

NOTE 12 – PENSION AND RETIREMENT PLANS (Cont.)

State Teachers Retirement System (Cont.)

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31^{st} year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 upon termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit.

The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

NOTE 12 – PENSION AND RETIREMENT PLANS (Cont.)

State Teachers Retirement System (Cont.)

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The College was required to contribute 14 percent. Of the College's contribution, 13 percent was the portion used to fund pension obligations for 2003. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Effective July 1, 2003, the member contribution rate increased to the statutory maximum of 10 percent. College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were $488,115 $472,527, and $486,829, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

Alternative Retirement Plan

The College offers a defined contribution plan as an alternative to participation with State mandated defined benefit plans in accordance with state law. Non-elective employee contributions and employer contributions are made to the plan in amounts equivalent to the participant's compensation which would have otherwise been contributed to the State Retirement System that applies to the participant's position. There were no participant's in the program, and therefore there were no contributions to the plan for fiscal year ended June 30, 2004.

NOTE 13 – POST-EMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

NOTE 13 – POST-EMPLOYMENT BENEFITS (Cont.)

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board currently allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2004, 4.5% of covered payroll was allocated to the fund. The balance in the Health Care Stabilization Fund was $2.8 billion on June 30, 2003. For the College, this amount equaled $156,876 during the 2004 fiscal year. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000. There were 108,294 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $24,500. For the College, the amount contributed to fund health care benefits, including surcharge, during the 2004 fiscal year equaled $176,797.

The surcharge added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay as-you-go basis. The target health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004, were $223,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was $300.8 million. The number of participants currently receiving health care benefits is approximately 62,000.

NOTE 14 – RISK MANAGEMENT

A. Property and Liability

The College is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the College contracted with the Young Insurance Agency for liability, property and vehicle insurance.

NOTE 14 – RISK MANAGEMENT (Cont.)

A. Property and Liability (Cont.)

Coverage provided is as follows:

Umbrella	$ 4,000,000 limit
Building and Contents - replacement cost ($10,000 deductible)	26,846,802 limit
Inland Marine ($500 deductible)	10,141 limit
Inland Marine Contractor Equipment ($1,000 deductible)	65,161 limit
Inland Marine EDP coverage Main ($2,500 deductible)	500,000 limit
Inland Marine EDP Coverage WPTC ($2,500 deductible)	25,000 limit
Boiler and Machinery ($1,000 deductible)	26,846,202 limit
Theft, Disappearance and Destruction Insurance ($1,000 deductible)	50,000 to 150,000 limit inside and outside premises
Employee Dishonesty Insurance (No deductible)	
Security Officers (4) and Bookstore Supervisor	47,500 limit each employee
College President, Foundation Executive, Bookstore Cashiers (4), and Business Office (5)	
EORTC Cashiers (2), EORTC Director, Foundation Cashier	22,500 limit each employee
Automobile Liability - Bodily Injury and Property Damage	1,000,000 each accident
General Liability Insurance	1,000,000 each occurrence
	2,000,000 aggregate

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

B. Workers' Compensation

For fiscal year 2004, the College participated in the Ohio College Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the College by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Colleges is calculated as one experience and a common premium rate is applied to all Colleges in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Colleges that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

NOTE 15 – CONTINGENCIES

A. Grants

The College received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Current Unrestricted Educational and General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the College at June 30, 2004.

B. Litigation

The College is currently not party to any legal proceedings.

NOTE 16- NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* and addresses additional risks to which governments are exposed. Under GASB No. 40, state and local governments are required to disclose information covering four principal areas:

-investment credit risk disclosures, including credit quality information issued by rating agencies;
-interest rate disclosures that include investment maturity information, such as weighted average maturities or specific identification of the securities;
-interest rate sensitivity for investments that are highly sensitive to changes in interest rates (example, inverse floaters, enhanced variable-rate investments, and certain asset-backed securities); and
-foreign exchange exposures that would indicate the foreign investment's domination.

The GASB No. 40 provisions are effective for financial statements for periods beginning after June 15, 2004. College management has not yet determined the impact that implementation of GASB No. 40 will have on the College's financial statements.

Zane State College
Muskingum County, Ohio
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Labor				
Direct Program:				
Employment and Training Administration Pilots, Demonstrations and Research Projects	N/A	17.261	146,357	205,613
Total U.S. Department of Labor			146,357	205,613
United States Department of Education				
Direct from the Federal Agency				
Higher Education_Institutional Aid	N/A	84.031	389,126	431,415
Student Financial Aid Cluster:				
Federal Family Education Loans (Guaranteed Student Loans)	N/A	84.032	2,365,119	2,365,119
Federal Work-Study Program	N/A	84.033	139,879	145,692
Federal Pell Grant Program	N/A	84.063	2,526,409	2,348,609
Total Student Financial Aid Cluster			5,031,407	4,859,420
Passed through the Ohio Department of Education				
Vocational Education: Basic Grants to States	20-C2	84.048	108,841	107,711
Tech-Prep Education	3ETC	84.243	133,039	110,379
Total passed through the Ohio Department of Education			241,880	218,090
Total United States Department of Education			$5,662,413	$5,508,925
Total Federal Financial Assistance			$5,808,770	$5,714,538

NA - Not applicable, Direct Grant
See accompanying Notes to the Schedule of Federal Awards Expenditures.

ZANE STATE COLLEGE

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant transactions of Zane State College (the College) recorded on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

NOTE 2 – FEDERAL FAMILY EDUCATION LOAN PROGRAM

During the fiscal year ended June 30, 2004, the College processed new loans under the Guaranteed Student Loan Program. Several banks act as lenders for the College. The amount shown only reflects the fiscal year amount that has been certified by the College.

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

Board of Trustees
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

We have audited the financial statements of Zane State College (the College) and its discretely presented component unit as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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*.

We noted certain matters that we reported to the management of the College in a separate letter dated December 17, 2004.

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 17, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

Compliance

We have audited the compliance of Zane State College (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Zane State College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, Zane State College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 17, 2004

ZANE STATE COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

FOR THE YEAR ENDED JUNE 30, 2004

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1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Family Education Loan Program CFDA #84.032, Federal Work- Study Program CFDA# 84.033, PELL Grant Program CFDA# 84.063 & Higher Education_ Institutional Aid, CFDA # 84.031
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

ZANE STATE COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

FOR THE YEAR ENDED JUNE 30, 2004

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

Finding Number	None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

Auditor of State
Betty Montgomery

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ZANE STATE COLLEGE

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 10, 2005