



**Auditor of State
Betty Montgomery**

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non GAAP Basis) and Actual – General Fund.....	17
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	18
Notes to the Basic Financial Statements	19
Schedule of Federal Awards Receipts and Expenditures.....	55
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Independent Accountants' Report on Compliance With Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	59
Schedule of Findings.....	61

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Licking Heights Local School District
Licking County
6539 Summit Road S.W.
Summit Station, Ohio 43073-0027

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures provides additional information and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

April 27, 2005

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The discussion and analysis of the Licking Heights Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General revenues accounted for \$17,530,951 in revenue or 94% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,126,794 or 6% of total revenues of \$18,657,745.
- Total program expenses were \$16,360,307.
- In total, net assets increased \$2,297,438.
- Outstanding debt increased from \$23,946,785 to \$81,121,061 during 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Licking Heights Local School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* 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.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non instructional services, ie, food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund and the building fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Reporting the School District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 18. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

**(Table 1)
Net Assets**

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 73,131,691	\$ 14,747,745
Capital Assets	31,582,607	28,631,549
Total Assets	104,714,298	43,379,294
Liabilities		
Current and Other Liabilities	10,477,206	10,767,843
Long-Term Liabilities:		
Due Within One Year	30,124,335	1,134,420
Due in More Than One Year	53,778,092	23,439,804
Total Liabilities	94,379,633	35,342,067
Net Assets		
Invested in Capital Assets Net of Debt	7,470,280	4,631,014
Restricted	1,521,275	2,336,108
Unrestricted	1,343,110	1,070,105
Total Net Assets	\$ 10,334,665	\$ 8,037,227

Total net assets increased by \$2,297,438. An increase of \$2,951,058 in total capital assets reflects additional purchases exceeding depreciation. Total liabilities increased by \$59,037,566, which was primarily a result of the issuance of new debt.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparison in successive reporting years. This will enable the reader to draw further conclusions about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	Governmental Activities 2004
Revenues:	
<i>Program Revenues:</i>	
Charges for Services	\$ 627,659
Operating Grants	499,135
<i>General Revenue:</i>	
Property Taxes	11,222,817
Grants and Entitlements	5,965,488
Other	342,646
 <i>Total Revenues</i>	 18,657,745
 <i>Program Expenses</i>	
Instruction	7,935,328
Support Services	5,561,514
Operation of Non-Instructional Services	648,110
Extracurricular Activities	311,849
Interest and Fiscal Charges	1,818,854
Issuance Costs	84,652
 <i>Total Expenses</i>	 16,360,307
 Increase in Net Assets	 \$ 2,297,438

Governmental Activities

Several revenue sources fund the School District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$11.2 million in 2004. General revenues from grants and entitlements, such as the school foundation program, are also a large revenue generator.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2004	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 7,935,328	\$ 7,774,616
Support Services:		
Pupil and Instructional Staff	1,239,041	1,088,785
Board of Education, Administration		
Fiscal and Central	1,735,966	1,668,989
Operation and Maintenance of Plant	1,393,870	1,381,105
Pupil Transportation	1,192,637	1,177,649
Operation of Non-Instructional Services	648,110	54,450
Extracurricular Activities	311,849	184,413
Interest and Fiscal Charges	1,818,854	1,818,854
Issuance Costs	84,652	84,652
 Total	 \$ 16,360,307	 \$ 15,233,513

Instruction and student support services comprise 56% of governmental program expenses. Interest, fiscal and administration charges were 22%. Interest expense was attributable to the outstanding bonds; fiscal expenses include payments to the County Auditor for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation and maintenance of facilities accounts for 16% of governmental program expenses. Operation of non-instructional services, consisting primarily of food service operations, comprises 4% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Licking Heights Local School District students.

General Fund Budgeting Highlights

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Budget basis revenue was \$12,916,301 compared to original estimates of \$10,884,202. Of this \$2,032,099 difference, most was due to conservative state subsidy and tax estimates.

During the course of fiscal year 2004, the School District modified its general fund budget. The School District uses site-based budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$31,582,607 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. See note 9 for additional details. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land	\$ 1,401,947	\$ 411,756
Construction in Progress	1,483,014	22,645,281
Land Improvements	70,809	75,340
Buldings and Improvements	27,261,244	4,257,745
Furniture and Equipment	583,705	561,623
Vehicles	781,888	679,804
	\$ 31,582,607	\$ 28,631,549

The \$2,951,058 increase in capital assets was attributable to the District starting the construction of two new elementary schools and the related purchase of land.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Debt

At June 30, 2004, the School District had \$81,121,061 in outstanding debt with \$30,050,000 due within one year. See note 14 for additional details. Table 5 summarizes bonds and notes outstanding.

**(Table 5)
Outstanding Debt, at June 30**

	<u>2004</u>	<u>2003</u>
Various School Improvement Serial Bonds	\$ 51,860,000	\$ 23,805,000
Various School Improvement Capital Appreciation Bonds	261,061	141,785
Bond Anticipation Notes	<u>29,000,000</u>	<u>0</u>
 Total	 <u>\$ 81,121,061</u>	 <u>\$ 23,946,785</u>

Set-asides

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks (see note 21). For fiscal year 2004, this amounted to \$266,285 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for both set asides.

Current Issues

The Licking Heights Local School District anticipates a slow, steady growth in enrollment, as has happened during the last few years. The School District has issued debt for the construction of a new middle and high school which was completed during the fiscal year. The School District is also in the process of constructing two new elementary schools and renovating other buildings within the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jennifer Vanover, Treasurer of Licking Heights Local School District, P.O. Box 27, Summit Station, Ohio 43073.

THIS PAGE INTENTIONALLY LEFT BLANK

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Statement of Net Assets
June 30, 2004*

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,785,985
Cash and Cash Equivalents with Fiscal Agent	6,914
Investments in Segregated Accounts	56,037,301
Receivables:	
Taxes	10,658,867
Accounts	6,589
Intergovernmental	48,751
Prepaid Items	106,192
Inventory Held For Resale	12,956
Materials and Supplies Inventory	2,256
Deferred Charges	465,880
Nondepreciable Capital Assets	2,884,961
Depreciable Capital Assets (Net)	28,697,646
<i>Total Assets</i>	104,714,298
Liabilities	
Accounts Payable	211,655
Contracts Payable	410,922
Accrued Wages and Benefits	1,059,489
Matured Compensated Absences Payable	4,202
Accrued Interest Payable	474,561
Retainage Payable	125,642
Intergovernmental Payable	515,975
Deferred Revenue	7,667,846
Matured Interest Payable	6,914
Long Term Liabilities:	
Due Within One Year	30,124,335
Due Within More Than One Year	53,778,092
<i>Total Liabilities</i>	94,379,633
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,470,280
Restricted for:	
Debt Service	1,427,172
Other Purposes	94,103
Unrestricted	1,343,110
<i>Total Net Assets</i>	\$ 10,334,665

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Statement of Activities
For the Fiscal Year Ended June 30, 2004*

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$ 6,193,579	\$ 74,544	\$ 51,191	\$ (6,067,844)
Special	1,276,174	13,028	15,517	(1,247,629)
Vocational	213,204	2,375	0	(210,829)
Other	252,371	4,057	0	(248,314)
Support Services:				
Pupils	572,769	5,198	102,772	(464,799)
Instructional Staff	666,272	6,990	35,296	(623,986)
Board of Education	19,340	218	0	(19,122)
Administration	1,236,749	13,231	48,588	(1,174,930)
Fiscal	427,412	4,411	0	(423,001)
Operation and Maintenance of Plant	1,393,870	12,679	86	(1,381,105)
Pupil Transportation	1,192,637	12,350	2,638	(1,177,649)
Central	52,465	529	0	(51,936)
Operation of Non-Instructional Services	648,110	412,820	180,840	(54,450)
Extracurricular Activities	311,849	65,229	62,207	(184,413)
Debt Service:				
Interest and Fiscal Charges	1,818,854	0	0	(1,818,854)
Issuance Costs	84,652	0	0	(84,652)
Total Governmental Activities	\$ 16,360,307	\$ 627,659	\$ 499,135	\$ (15,233,513)
 General Revenues				
Property Taxes Levied for:				
General Purposes			8,298,661	
Debt Service			2,924,156	
Grants and Entitlements not Restricted to Specific Programs			5,965,488	
Investment Earnings			140,443	
Miscellaneous			202,203	
Total General Revenues			17,530,951	
Change in Net Assets			2,297,438	
Net Assets Beginning of Year - Restated (See note 3)			8,037,227	
Net Assets End of Year			\$ 10,334,665	

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,343,495	\$ 1,655,605	\$ 1,417,276	\$ 369,609	\$ 5,785,985
Cash and Cash Equivalents with Fiscal Agent	0	6,914	0	0	6,914
Investments in Segregated Accounts	0	30,704,733	25,332,568	0	56,037,301
Receivables:					
Taxes	7,874,346	2,784,521	0	0	10,658,867
Accounts	6,557	0	0	32	6,589
Interfund	3,611	0	0	0	3,611
Intergovernmental	23,134	0	0	25,617	48,751
Prepaid Items	101,364	0	0	4,828	106,192
Inventory Held For Resale	0	0	0	12,956	12,956
Materials and Supplies Inventory	0	0	0	2,256	2,256
Total Assets	\$ 10,352,507	\$ 35,151,773	\$ 26,749,844	\$ 415,298	\$ 72,669,422
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 158,994	\$ 0	\$ 17,801	\$ 34,860	\$ 211,655
Contracts Payable	0	0	410,922	0	410,922
Accrued Wages and Benefits	1,026,388	0	0	33,101	1,059,489
Matured Compensated Absences Payable	0	0	0	4,202	4,202
Retainage Payable	0	0	125,642	0	125,642
Interfund Payable	0	0	0	3,611	3,611
Intergovernmental Payable	274,603	0	0	8,753	283,356
Deferred Revenue	6,227,033	2,201,999	0	0	8,429,032
Matured Interest Payable	0	6,914	0	0	6,914
Total Liabilities	7,687,018	2,208,913	554,365	84,527	10,534,823
Fund Balances					
Reserved for Encumbrances	210,226	0	5,108,499	9,085	5,327,810
Reserved for Inventory	0	0	0	15,212	15,212
Reserved for Property Taxes	1,647,313	582,522	0	0	2,229,835
Unreserved:					
Undesignated, Unreserved Reported in:					
General Fund	807,950	0	0	0	807,950
Special Revenue Funds	0	0	0	156,474	156,474
Debt Service Fund	0	32,360,338	0	0	32,360,338
Capital Projects Funds	0	0	21,086,980	150,000	21,236,980
Total Fund Balances	2,665,489	32,942,860	26,195,479	330,771	62,134,599
Total Liabilities and Fund Balances	\$ 10,352,507	\$ 35,151,773	\$ 26,749,844	\$ 415,298	\$ 72,669,422

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Reconciliation of Total Governmental Fund Balances to
Net Assets Governmental Activities
June 30, 2004*

Total Governmental Fund Balances	\$ 62,134,599
----------------------------------	---------------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	31,582,607
--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. Delinquent Property Taxes	761,186
---	---------

Bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	465,880
--	---------

Interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not recorded.	(474,561)
--	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(51,860,000)
Capital Appreciation Bonds	(261,061)
Bond Premium	(2,239,979)
Bond Anticipation Notes	(29,000,000)
Compensated Absences	(450,226)
Intergovernmental Payable	(232,619)
Capital Lease Payable	(91,161)
<hr/>	
Total	<hr/> <u>(84,135,046)</u>

Net Assets of Governmental Activities:	<u><u>\$ 10,334,665</u></u>
--	-----------------------------

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004*

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 8,027,760	\$ 2,744,944	\$ 86,568	\$ 0	\$ 10,859,272
Intergovernmental	5,546,323	289,047	0	563,536	6,398,906
Investment Income	34,621	32,809	72,406	607	140,443
Tuition and Fees	140,469	0	0	14,519	154,988
Extracurricular Activities	0	0	0	130,117	130,117
Rentals	9,080	0	0	0	9,080
Charges for Services	0	0	0	413,027	413,027
Contributions and Donations	11,900	0	0	29,278	41,178
Miscellaneous	10,474	0	26,858	2,183	39,515
<i>Total Revenues</i>	<u>13,780,627</u>	<u>3,066,800</u>	<u>185,832</u>	<u>1,153,267</u>	<u>18,186,526</u>
Expenditures					
Current:					
Instruction:					
Regular	5,436,995	0	0	96,433	5,533,428
Special	1,181,193	0	0	113,304	1,294,497
Vocational	214,761	0	0	0	214,761
Other	246,872	0	0	5,499	252,371
Support Services:					
Pupils	474,938	0	0	106,346	581,284
Instructional Staff	582,495	0	0	36,652	619,147
Board of Education	19,340	0	0	0	19,340
Administration	1,149,932	0	0	49,450	1,199,382
Fiscal	376,419	31,487	0	0	407,906
Operation and Maintenance of Plant	1,022,470	0	0	197,862	1,220,332
Pupil Transportation	1,000,183	0	19,073	2,680	1,021,936
Central	47,118	0	0	0	47,118
Operation of Non-instructional Services	0	0	0	564,580	564,580
Extracurricular Activities	195,457	0	0	119,876	315,333
Capital Outlay	270,785	0	3,548,219	0	3,819,004
Debt Service:					
Principal Retirement	30,342	875,000	229,078	0	1,134,420
Interest and Fiscal Charges	7,512	1,274,623	12,882	0	1,295,017
Issuance Costs	0	550,532	0	0	550,532
<i>Total Expenditures</i>	<u>12,256,812</u>	<u>2,731,642</u>	<u>3,809,252</u>	<u>1,292,682</u>	<u>20,090,388</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,523,815</u>	<u>335,158</u>	<u>(3,623,420)</u>	<u>(139,415)</u>	<u>(1,903,862)</u>
Other Financing Sources (Uses)					
Proceeds of Bonds	0	29,000,000	0	0	29,000,000
Proceeds of Notes	0	0	29,000,000	0	29,000,000
Premium on Debt Issuance	0	2,361,489	0	0	2,361,489
<i>Total Other Financing Sources and (Uses)</i>	<u>0</u>	<u>31,361,489</u>	<u>29,000,000</u>	<u>0</u>	<u>60,361,489</u>
<i>Net Change in Fund Balance</i>	1,523,815	31,696,647	25,376,580	(139,415)	58,457,627
<i>Fund Balances Beginning of Year (restated)</i>	1,141,674	1,246,213	818,899	467,927	3,674,713
<i>Increase in Reserve for Inventory</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,259</u>	<u>2,259</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,665,489</u>	<u>\$ 32,942,860</u>	<u>\$ 26,195,479</u>	<u>\$ 330,771</u>	<u>\$ 62,134,599</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds		\$ 58,457,627
 <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.		
Capital Asset Additions	3,819,004	
Current Year Depreciation	(867,946)	2,951,058
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	363,545	
Tuition and Fees	(13,836)	349,709
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	875,000	
Rebate Arbitrage	229,078	
Capital Leases	30,342	1,134,420
 Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.		
Proceeds of Bonds	(29,000,000)	
Proceeds of Notes	(29,000,000)	(58,000,000)
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. In 2004, the District issued some new debt. The governmental funds report the effects of premiums and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Accretion on capital appreciation bonds is an expenditure in the governmental funds, but deferred on the statement of net assets.		
Accrued Interest	(474,561)	
Bond Premium	(2,239,979)	
Bond Issuance Costs	465,880	
Bond Accretion	(49,276)	(2,297,936)
 Some expenses reported in the statement of net activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(173,368)	
Pension Obligation	(126,331)	
Change in Inventory	2,259	(297,440)
Change in Net Assets of Governmental Activities:		\$ 2,297,438

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Taxes	\$ 6,358,457	\$ 6,783,967	\$ 7,128,343	\$ 344,376
Intergovernmental	4,267,709	5,288,638	5,556,902	268,264
Investment Income	68,870	48,527	51,022	2,495
Tuition and Fees	154,173	146,999	154,485	7,486
Rentals	2,000	8,456	9,080	624
Contributions and Donations	2,000	11,276	11,900	624
Miscellaneous	3,623	3,753	3,753	0
<i>Total Revenues</i>	<u>10,856,832</u>	<u>12,291,616</u>	<u>12,915,485</u>	<u>623,869</u>
Expenditures				
Current:				
Instruction:				
Regular	9,038,840	6,018,607	5,554,010	464,597
Special	451,964	1,252,682	1,155,980	96,702
Vocational	14,866	233,207	215,337	17,870
Other	204,395	268,473	247,452	21,021
Support Services				
Pupils	194,477	554,730	512,685	42,045
Instructional Staff	213,111	646,659	596,205	50,454
Board of Education	50,107	36,285	33,132	3,153
Administration	246,273	1,287,067	1,187,210	99,857
Fiscal	228,589	435,226	401,650	33,576
Operation and Maintenance of Plant	662,608	1,440,523	1,329,105	111,418
Pupil Transportation	373,337	1,158,475	1,069,131	89,344
Central	69,151	51,322	47,118	4,204
Operation of Non-Instructional Services	0	0	0	0
Extracurricular Activities	145,994	219,379	202,561	16,818
<i>Total Expenditures</i>	<u>11,893,712</u>	<u>13,602,635</u>	<u>12,551,576</u>	<u>1,051,059</u>
Excess of Revenues Over (Under) Expenditures	(1,036,880)	(1,311,019)	363,909	1,674,928
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	700	0	0	0
Refund of Prior Year Expenditures	26,670	816	816	0
Advances Out	(50,000)	(3,611)	(3,611)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(22,630)</u>	<u>(2,795)</u>	<u>(2,795)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,059,510)	(1,313,814)	361,114	1,674,928
<i>Fund Balance Beginning of Year</i>	1,421,164	1,421,164	1,421,164	0
Prior Year Encumbrances Appropriated	209,652	209,652	209,652	0
<i>Fund Balance End of Year</i>	<u>\$ 571,306</u>	<u>\$ 317,002</u>	<u>\$ 1,991,930</u>	<u>\$ 1,674,928</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

*Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004*

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 32,943
Liabilities	
Accounts Payable	\$ 258
Due to Students	32,685
<i>Total Liabilities</i>	<u>\$ 32,943</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Licking Heights Local School District (the "School District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District.

The School District was established in 1956, and is located just east of the City of Columbus about one-half mile from the Franklin County border. The School District serves an area of approximately 53 square miles. It is located in Licking and Franklin Counties and covers parts of the City of Pataskala and Jersey, St. Albans, and Etna Townships in Licking County and parts of Jefferson Township, City of Reynoldsburg, and the City of Columbus in Franklin County. Average daily membership on, or as of October 1, 2003, was 2,005. The School District employs 79 certificated and 123 non-certificated employees. The School District currently operates four instructional buildings, one administrative building, and one garage.

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service and student related activities of the School District.

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

The School District is involved with four jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association, the Metropolitan Educational Council, the Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Ohio School Plan. Additional information concerning the jointly governed organizations and the insurance purchasing pools is presented in Notes 18 and 19.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities. The most significant of the School District's accounting policies are shown below.

A. Basis of Presentation

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

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

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

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of 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 type.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

Debt Service Fund - The debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds and bond anticipation notes used for the construction and renovation of buildings within the School District.

Building Capital Projects Fund - The building fund is used to account for bond proceeds and interest revenue to be used for the construction of a new Jr. and Sr. high school along with the construction of new elementary schools and various renovations to the School District's buildings.

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The School District does not have any proprietary type funds.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

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

D. Basis of Accounting

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (continued)

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except for some capital project monies used for construction and debt service fund monies used for the repayment of debt, are maintained in this pool. Individual fund integrity is maintained through School District records.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), and federal agency securities which are reported at fair value based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$34,621, which includes \$32,575 assigned from other School District funds.

The School District has a bank account for the repayment of bonds and coupons held separate from the School District's central bank account. This non-interest bearing checking account is presented in the financial statements as "cash and cash equivalents with fiscal agent" since it is not required to be deposited into the School District treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

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

G. Inventory

Inventories are valued at cost on a first-in, first-out basis. The cost of inventory is recorded as an expense at the time individual inventory items are consumed for governmental activities and as an expenditure when purchased in the governmental fund statements. Inventories consist of, purchased food, and supplies held for resale.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material, capital improvements, and to create a reserve for budget stabilization. See Note 21 for additional information regarding set-asides.

I. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

J. Bond Premiums

Bond premiums are recorded as an other financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

K. Capital Assets

The District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a \$2,000 capitalization threshold for its general capital assets. This was increased from the prior threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets except land and construction in progress 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	N/A
Land Improvements	10-20 Years
Buildings and Improvements	20-45 Years
Furniture and Equipment	7-20 Years
Vehicles	5-20 Years

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated on the statement of net assets.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB 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 employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund from which the employee will be paid.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

P. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, inventory and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

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.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Licking County Budget Commission for rate determination.

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the first amended certificate (original) and the amounts in the amended certificate that was in effect at the time final appropriations were passed by the Board of Education (final).

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund level which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the first appropriation measure passed which is anticipated to cover the entire fiscal year (original) and the final appropriation amounts passed during the fiscal year, including all supplemental appropriations (final). Formal budgetary integration is employed as a management control device during the fiscal year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS**

Change in Accounting Principles For fiscal year 2004, the School District has implemented GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". As of June 30, 2004, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38 or GASB Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total on one column.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS (Continued)**

The government-wide financial statements split the School District's programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in Statement No. 34. Due to these fund reclassifications, there are no business-type activities reported.

Restatement of Fund Balance The School District changed its capitalization threshold for capital assets from \$500 to \$2,000.

It was determined that enterprise funds should be reclassified to special revenue funds. The restatement for GASB Statement No. 34 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Building	Nonmajor	Total
Fund Balances, June 30, 2003	\$ 1,141,674	\$ 1,246,213	\$ 818,899	\$ 425,716	\$ 3,632,502
Fund Structure Change	0	0	0	42,211	42,211
Restated Fund Balances, June 30, 2003	<u>\$ 1,141,674</u>	<u>\$ 1,246,213</u>	<u>\$ 818,899</u>	<u>\$ 467,927</u>	3,674,713
GASB 34 adjustments:					
Capital Assets, June 30, 2003					35,581,443
Change in Value of Capital Assets:					
Cost					(1,101,105)
Accumulated Depreciation					<u>(5,848,789)</u>
Adjusted Capital Assets, June 30, 2003					28,631,549
Compensated Absences					(276,858)
Pension Obligations					(106,288)
Long-Term (Deferred) Assets					411,477
Long-Term Liabilities					<u>(24,297,366)</u>
Governmental Activities Net Assets, June 30, 2003					<u>\$ 8,037,227</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance 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 (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis to provide 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) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

<u>Net Change in Fund Balance</u>	
	<u>General</u>
GAAP Basis	\$ 1,523,815
Net adjustment for revenue accruals	(864,326)
Net adjustment for expenditure accruals	53,186
Adjustment for encumbrances	(351,561)
Budget Basis	\$ 361,114

NOTE 5: FUND DEFICITS

GAAP basis fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
Other Governmental Funds:	
EMIS	\$ 25
DPIA	56
Title VI-B	1,534
Title I	635
Title VI	61
Title VI-R	152

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 5: FUND DEFICITS (Continued)

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits 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 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 or deposit accounts including passbook accounts.

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

Interim monies 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 States 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;

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

- 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any 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; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).
- 7) Certain bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted 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 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. 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.

Cash on Hand

At year end, the School District had \$4,000 in undeposited cash on hand which is included on the financial statements of the School District as part of "equity in pooled cash and cash equivalents".

Cash with Fiscal Agent

The School District has a bank account for the repayment of bonds and coupons held separate from the School District's central bank account. This non-interest bearing checking account is presented in the financial statements as "cash and cash equivalents with fiscal agent" since it is not required to be deposited into the School District treasury.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$584,908, which includes \$4,000 cash on hand, and the bank balance was \$1,085,991. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$985,991 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

The School District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the School District'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 School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Fair Value
FHLMC DN	\$ 22,679,878	\$ 22,679,878
FNMA DN	25,404,162	25,404,162
FHLB DN	1,970,577	1,970,577
FNMA	2,008,146	2,008,146
FHLB	3,974,538	3,974,538
STAROhio	0	5,240,934
Total	\$ 56,037,301	\$ 61,278,235

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

The federal agency securities have maturities ranging from August 2004 to December 2005.

The classification of cash and cash equivalents, and investments on the financial statements 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."

A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 5,825,842	\$ 56,037,301
Investments of the Cash Management Pool:		
STAROhio	(5,240,934)	5,240,934
GASB Statement No. 3	\$ 584,908	\$ 61,278,235

NOTE 7: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received during calendar year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003 on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the reminder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 7: PROPERTY TAXES (Continued)

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25% of true value for capital assets and 24% of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, the School District did not receive payment from the Licking County Auditor until July 2004.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$ 276,891,940	89.72%	325,215,040	90.27%
Public Utility Personal	8,797,180	2.85%	9,329,380	2.59%
Tangible Personal Property	22,933,819	7.43%	25,721,029	7.14%
Total Assessed Value	\$ 308,622,939	100.00%	\$ 360,265,449	100.00%
 Tax rate per \$1,000 of assessed value	 <u>\$ 50.50</u>		 <u>\$ 47.52</u>	

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 later payment dates to be established.

The School District receives property taxes from Licking and Franklin Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 7: PROPERTY TAXES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Licking Heights Local School District. The County Auditor periodically remits to the School District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the School District as an advance at June 30, 2004 was \$2,229,835.

NOTE 8: RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (customer services and student fees) and intergovernmental grants. 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.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 9: CAPITAL ASSETS

The capital assets of the governmental activities have been restated due to changes in the District's capital asset policy (See Note 3).

	<u>Balance</u>	<u>Adjustments</u>	<u>Restated Balance</u>
	<u>June 30, 2003</u>		<u>June 30, 2003</u>
Governmental Activities:			
<i>Capital Assets, Not Being Depreciated:</i>			
Land	\$ 0	\$ 411,756	\$ 411,756
Construction in Progress	22,645,281	0	22,645,281
<i>Total Capital Assets, Not Being Depreciated</i>	<u>22,645,281</u>	<u>411,756</u>	<u>23,057,037</u>
 <i>Capital Assets, Being Depreciated:</i>			
Land Improvements	495,742	(413,906)	81,836
Buildings and Improvements	8,816,375	(3,458)	8,812,917
Furniture and Equipment	2,447,006	(1,092,997)	1,354,009
Vehicles	1,233,527	(2,500)	1,231,027
<i>Total Capital Assets, Being Depreciated</i>	<u>12,992,650</u>	<u>(1,512,861)</u>	<u>11,479,789</u>
 Less: Accumulated Depreciation	<u>56,488</u>	<u>5,848,789</u>	<u>5,905,277</u>
 Total Capital Assets Being Depreciated	12,936,162	(7,361,650)	5,574,512
 Governmental Activities Capital Assets, Net	<u>\$ 35,581,443</u>	<u>\$ (6,949,894)</u>	<u>\$ 28,631,549</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 9: CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
Governmental Activities:				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 411,756	\$ 990,191	\$ 0	\$ 1,401,947
Construction in Progress	22,645,281	2,548,328	(23,710,595)	1,483,014
<i>Total Capital Assets, Not Being Depreciated</i>	<u>23,057,037</u>	<u>3,538,519</u>	<u>(23,710,595)</u>	<u>2,884,961</u>
 <i>Capital Assets, Being Depreciated:</i>				
Land Improvements	81,836	0	0	81,836
Buildings and Improvements	8,812,917	23,710,595	0	32,523,512
Furniture and Equipment	1,354,009	114,912	0	1,468,921
Vehicles	1,231,027	165,573	0	1,396,600
<i>Total Capital Assets, Being Depreciated</i>	<u>11,479,789</u>	<u>23,991,080</u>	<u>0</u>	<u>35,470,869</u>
 <i>Less Accumulated Depreciation:</i>				
Land Improvements	(6,496)	(4,531)	0	(11,027)
Buildings and Improvements	(4,555,172)	(707,096)	0	(5,262,268)
Furniture and Equipment	(792,386)	(92,830)	0	(885,216)
Vehicles	(551,223)	(63,489)	0	(614,712)
<i>Total Accumulated Depreciation</i>	<u>(5,905,277)</u>	<u>(867,946)</u>	<u>0</u>	<u>(6,773,223)</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	 <u>5,574,512</u>	 <u>23,123,134</u>	 <u>0</u>	 <u>28,697,646</u>
 <i>Governmental Activities Capital Assets, Net</i>	 <u>\$ 28,631,549</u>	 <u>\$ 26,661,653</u>	 <u>\$ (23,710,595)</u>	 <u>\$ 31,582,607</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 9: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:			
Regular	\$	712,733	
Special		244	
Vocational		200	
Support Services:			
Instructional Staff		2,796	
Administration		1,045	
Fiscal		721	
Operation and Maintenance of Plant		77,721	
Pupil Transportation		62,818	
Central		5,347	
Operation of Non-Instructional Services		4,321	
Total Depreciation Expense	\$	867,946	

**NOTE 10:
RISK MANAGEMENT**

RISK

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance Company for property insurance and Auto-Owners Insurance for fleet insurance. The types and amounts of coverage provided are as follows:

Coverage	Amount
Building and Contents – replacement cost (deductible \$1,000)	\$ 32,920,973
Forgery of Alterations	100,000
Public Employee Dishonesty	100,000
Automobile Liability	1,000,000
Uninsured Motorists	
1,000,000	

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 19.)

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 10: RISK MANAGEMENT (Continued)

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

<u>Coverage</u>	<u>Amount</u>
General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	3,000,000
Products – Completed Operations Aggregate Limit	1,000,000
Medical Expense Limit – Per Person/Accident	10,000
Fire Damage Limit – Any One Event	500,000
Violence Liability:	
Violence Annual Aggregate	1,000,000
Death Result of Violent Act per Person	50,000
Death Result of Violent Act Aggregate	500,000
Employer’s Liability:	
Each Occurrence	1,000,000
Disease – Each Employee	1,000,000
Disease – Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educators Legal Liability (\$2,500 deductible):	
Per Claim	1,000,000
Annual Aggregate	2,000,000
Defense Annual Aggregate	1,000,000
Employment Practices Injury per Claim	1,000,000
Employment Practices Injury Aggregate	2,000,000

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

B. Workers’ Compensation

For fiscal year 2004, the School District participated in the Ohio Association of School Business Officials (OASBO) Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19) established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and libraries that can meet the GRP’s selection criteria. The firm of Sheakley Uniservice, Inc. Managed Care Organization provides administration costs and actuarial services to the GRP.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio 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 Ohio issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%; 13% was the portion to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003 and 2002 were \$803,208, \$711,112 and \$412,861, respectively; 81.4% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$149,046, representing the unpaid contribution for fiscal year 2004, is recorded as a liability.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$257,736, \$133,514 and \$77,013, respectively; 42.7% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$147,804, representing the unpaid contribution for fiscal year 2004, is recorded as a liability.

NOTE 12: POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$57,372 for fiscal year 2004.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with 10 years or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll, a decrease of .92% from fiscal year 2003. 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 was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$224,475.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13: NOTES PAYABLE

A summary of the note transactions for the year ended June 30, 2004 follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2.05% Energy Conservation Note	\$ 773,892	\$ 0	\$ (773,892)	\$ 0

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 14: LONG-TERM OBLIGATIONS

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

	Outstanding July 1, 2003	Additions	Reductions	Outstanding June 30, 2004	Due in One Year
Governmental Activities:					
School Improvement Bonds-2000	\$ 940,000	\$ 0	\$ (5,000)	\$ 935,000	\$ 5,000
School Improvement Bonds-2001					
Serial and Term Bonds	22,865,000	0	(870,000)	21,995,000	1,045,000
Capital Appreciation Bonds	74,032	0	0	74,032	0
Accretion on Capital Appreciation Bonds	67,753	38,864	0	106,617	0
School Improvement Bonds-2004					
Serial and Term Bonds	0	28,930,000	0	28,930,000	0
Capital Appreciation Bonds	0	70,000	0	70,000	0
Accretion on Capital Appreciation Bonds	0	10,412	0	10,412	0
Unamortized Premium	0	2,239,979	0	2,239,979	0
Bond Anticipation Note	0	14,500,000	0	14,500,000	14,500,000
Bond Anticipation Note	0	14,500,000	0	14,500,000	14,500,000
Rebatable Arbitrage	229,078	0	(229,078)	0	0
Capital Leases	121,503	0	(30,342)	91,161	32,482
Compensated Absences	276,858	173,368	0	450,226	41,853
<i>Total Long-Term Obligations</i>	<u>\$ 24,574,224</u>	<u>\$ 60,462,623</u>	<u>\$ (1,134,420)</u>	<u>\$ 83,902,427</u>	<u>\$ 30,124,335</u>

The School District issued School Improvement General Obligation Bonds in the amount of \$950,000 on May 1, 2000, with an interest rate of 6.4%. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2028.

On September 15, 2000, the School District issued \$24,049,032 in voted general obligation bonds. The School District received \$25,082,472 in bond proceeds, which included a \$1,033,440 premium. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2028. The debt proceeds were used to construct a new high school building with a multi-purpose area for school and community use, renovating and improving existing school buildings and facilities, and acquiring land.

On December 23, 2003 and February 10, 2004, the School District issued bond anticipation notes in the amounts of \$14,500,000 and \$14,500,000, respectively. The note proceeds included premium amounts of \$56,695 and \$64,815, respectively. The notes mature on August 12, 2004, and will be repaid with proceeds of the 2004 school improvement bonds below.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

On May 17, 2004, the School District issued \$29,000,000 in general obligation bonds. The bonds were issued at a premium of \$2,239,979. The bonds were issued for a twenty-four year period with a final maturity at December 1, 2028. The debt proceeds are used to construct two new elementary schools, renovate existing school buildings, purchase equipment, acquire land and repay energy conservation note.

2001 School Improvement Bonds

The \$24,049,032 bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 4.3-6.0%. The term bonds that mature in the year 2024, with an interest rate of 5.5%, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2022, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2022	\$1,410,000
2023	1,420,000

The term bonds due December 1, 2028, with an interest rate of 5.625%, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2025, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2025	\$1,720,000
2026	1,835,000
2027	2,020,000

The term bonds maturing after December 1, 2010 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the District and by lot within a maturity, at the option of the Board of Education on or after December 1, 2010.

The capital appreciation bonds will mature December 1, 2013 through 2017. These bonds were purchased at a discount at the time of issuance and, at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$2,945,000. The fiscal year 2004 accretion amount is \$38,864.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

2004 School Improvement Bonds

The \$29,000,000 bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 2.0-5.25%. The term bonds that mature in the year 2028, with an interest rate of 5.0%, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2026, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2026	\$2,130,000
2027	2,445,000

The term bonds maturing after December 1, 2014 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the District and by lot within a maturity, at the option of the Board of Education on or after June 1, 2014.

The capital appreciation bonds will mature December 1, 2011 through 2015. These bonds were purchased at a discount at the time of issuance and, at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$2,875,000. The fiscal year 2004 accretion amount is \$10,412.

The following is a summary of the School District's annual debt service principal and interest payments regarding the outstanding general obligation debt:

	<u>General Obligation Bonds</u>		<u>Capital Appreciation Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,050,000	\$ 2,676,571	\$ 0	\$ 0	\$ 1,050,000	\$ 2,676,571
2006	1,230,000	2,558,673	0	0	1,230,000	2,558,673
2007	600,000	2,519,154	0	0	600,000	2,519,154
2008	1,000,000	2,488,877	0	0	1,000,000	2,488,877
2009	1,365,000	2,441,119	0	0	1,365,000	2,441,119
2010-2014	2,705,000	11,596,626	62,127	1,707,873	2,767,127	13,304,499
2015-2019	4,865,000	11,171,729	81,905	3,968,095	4,946,905	15,139,824
2020-2024	20,200,000	7,992,976	0	0	20,200,000	7,992,976
2025-2029	18,845,000	2,724,619	0	0	18,845,000	2,724,619
Total	<u>\$ 51,860,000</u>	<u>\$ 46,170,344</u>	<u>\$ 144,032</u>	<u>\$ 5,675,968</u>	<u>\$ 52,004,032</u>	<u>\$ 51,846,312</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

All general obligation bonds will be paid from property taxes. Capital leases will be paid from the general fund. Compensated absences will be paid from the fund which the employees' salaries are paid.

The School District's overall legal debt margin at June 30, 2004, was \$10,865,959, with an unvoted debt margin of \$360,265. The School District was approved as a special needs district on February 15, 2000, by the Ohio Department of Education. This approval was granted based on projected tax valuation growth figures submitted by the School District to the Ohio Department of Education. The approval of the School District as a special needs district allowed them to issue the new school improvement bonds.

Arbitrage occurs when the School District profits from the issuance of tax-exempt debt which is issued at a low rate of interest and invests the proceeds in higher yielding taxable securities. Interest earnings in excess of interest expense may have to be repaid to the Federal government. Based upon information provided by the School District's bond counsel, a \$229,078 liability had been recorded as of June 30, 2003, which was paid in full during fiscal year 2004.

NOTE 15: CAPITALIZED LEASES – LESSEE DISCLOSURE

The School District entered into lease agreements for a bus and several copiers. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service in the basic financial statements for the government funds.

The bus and the copiers acquired by the leases have been capitalized in the governmental capital assets in the amount of \$151,249. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. Principal payments in fiscal year 2004 totaled \$30,342.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

		Bus	Copiers	Total
Year ending June 30,	2005	\$ 10,802	\$ 27,824	\$ 38,626
	2006	0	27,823	27,823
	2007	0	23,277	23,277
	2008	0	8,456	8,456
		10,802	87,380	98,182
Less amount representing interest		477	6,544	7,021
Present value of minimum lease payments		\$ 10,325	\$ 80,836	\$ 91,161

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 16: INTERFUND BALANCES

As of June 30, 2004, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 3,611	\$ 0
Other Governmental:		
Uniform Supply	<u>0</u>	<u>3,611</u>
Totals	<u><u>\$ 3,611</u></u>	<u><u>\$ 3,611</u></u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

NOTE 17: CONTRACT OBLIGATIONS

As of June 30, 2004, the School District had contractual purchase commitments for the following projects:

<u>Contractor</u>	<u>Purchase Commitments</u>	<u>Amount Paid as of 6/30/2004</u>	<u>Amounts Remaining on Contracts</u>
<i>Building Construction Capital Projects Fund:</i>			
Regency Construction - Project Management Services	\$ 2,782,169	\$ 348,140	\$ 2,434,029
Schorr Associates - Architect Services	<u>2,158,500</u>	<u>1,080,840</u>	<u>1,077,660</u>
<i>Totals</i>	<u><u>\$ 4,940,669</u></u>	<u><u>\$ 1,428,980</u></u>	<u><u>\$ 3,511,689</u></u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

Licking Area Computer Association – The School District is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts and educational service centers. 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 LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. The School District paid \$72,250 to LACA during fiscal year 2004. Financial statements for LACA can be obtained from their fiscal agent – The Career and Technology Education Centers of Licking County, 150 Price Road, Newark, OH 43055.

Metropolitan Educational Council – The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members, which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District paid \$778,320 to MEC during fiscal year 2004. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Boulevard, Suite 604, Columbus, OH 43232.

Central Ohio Special Education Regional Resource Center – The Central Ohio Special Education Regional Resource Center (COSERRC) is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in Central Ohio (which comprise 60% of the Board), two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Developmental Disabilities, and representatives of universities. The School District participates in the following services of COSERRC: Identification and Program Development Project, Regional Educational Assessment Programming Project, Instructional Resource Center Project, Early Childhood Services Project, and the Ohio Resource Center for Low Incidence and Severely Handicapped Project. These services are to assist the School District in complying with mandates of Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the districts involved in COSERRC. COSERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for COSERRC. The School District made no contribution to COSERRC in fiscal year 2004.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS (Continued)

School Study Council of Ohio – The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and have voting privileges. School districts may elect to be associate members which entitles them to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council’s active membership. The Board consisted of fourteen members. In fiscal year 2004, Licking Heights obtained active membership privileges and paid a membership fee of \$350.

NOTE 19: INSURANCE PURCHASING POOLS

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

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

NOTE 20: CONTINGENCIES

A. Grants

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 20: CONTINGENCIES (Continued)

B. Litigation

The Licking Heights Local School District is not party to any legal proceedings.

NOTE 21: SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Improvements
Set-aside reserve balance as of June 30, 2003	\$ 0	\$ 0
Current year set-aside requirement	266,285	266,285
Balance carried over from prior year	(393,400)	(26,072,190)
Qualifying disbursements	(263,405)	(4,672,317)
Totals	\$ (390,520)	\$ (30,478,222)
Set-aside balance carried forward to future fiscal year	\$ (390,520)	\$ (30,478,222)
Total reserve balance	\$ 0	\$ 0

The School District had qualifying disbursements during the fiscal year that reduced the textbook and capital improvements set-aside amounts below zero. The extra amounts may be used to reduce the set-aside requirements in future years. The total reserve balance for the set-asides at the end of the fiscal year was zero.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

NOTE 22: STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed “. . . Ohio General Assembly to enact a school funding scheme that is thorough and efficient . . .” The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 23: SUBSEQUENT EVENTS

On March 21, 2005, the Board passed a resolution to issue Bonds for \$11 million. These Bonds were issued for the purpose of constructing school facilities; constructing additions to and renovating and improving existing facilities, including health and safety upgrades; furnishing and equipping the same; landscaping and improving sites thereof; acquiring land and interests in land; and retiring notes previously issued for such purpose.

On March 21, 2005 the Board passed a resolution authorizing the issuance of not to exceed \$17.1 million of Bonds for the purpose of advance refunding Bonds issued in 2000.

On March 21, 2005, the Board passed a resolution to purchase limited General Obligation Bonds for the purchase of buses not to exceed \$1 million and not to exceed the term of 15 years.

THIS PAGE INTENTIONALLY LEFT BLANK

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$48,850	\$0	\$48,850
School Breakfast Program	05PU-2004	10.553	10,885	0	10,885	0
National School Lunch Program	LLP4-2004	10.555	123,110	0	123,110	0
Total U.S. Department of Agriculture - Nutrition Cluster			133,995	48,850	133,995	48,850
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2003/2004	84.010	\$97,567	0	\$109,791	0
Special Education Grants to States	6BSF-2003/2004	84.027	166,362	0	168,722	0
Safe and Drug Free Schools and Communities	DRS1-2003/2004	84.186	6,030	0	6,379	0
Innovative Educational Program Strategies	C2S1-2004	84.298	8,922	0	8,922	0
Education Technology State Grants	TJS1-2004	84.318	2,622	0	2,622	0
Improving Teacher Quality State Grants	TRS1-2003/2004	84.367	44,652	0	47,786	0
Total U.S. Department of Education			326,155	0	344,222	0
Totals			\$460,150	\$48,850	\$478,217	\$48,850

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Licking Heights Local School District
Licking County
6539 Summit Road S.W.
Summit Station, Ohio 43073-0027

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 27, 2005, in which we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud that would be material in relation to the financial statements we audited may occur and not be detected timely by employees when 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. In a separate letter to the District's management dated April 27, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We intend this report solely for the information and use of the finance committee, management, the District's Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 27, 2005



Auditor of State Betty Montgomery

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

Licking Heights Local School District
Licking County
6539 Summit Road S.W.
Summit Station, Ohio 43073-27

To the Board of Education:

Compliance

We have audited the compliance of the Licking Heights Local School District, Licking County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Licking Heights Local School District, Licking County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

We intend this report solely for the information and use of the finance committee, management, the District's Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 27, 2005

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

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 material non-compliance 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 Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States - CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

LICKING 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
MAY 24, 2005**