



**Auditor of State
Betty Montgomery**

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Licking Local School District
Licking County
P.O. Box 180
Etna, Ohio 43018-0180

To the Board of Education:

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

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

Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Southwest Licking Local School District, Licking County, Ohio, and the respective changes in the modified cash financial position and the budgetary comparison of the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

March 23, 2006

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Southwest Licking Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities increased \$1,143,583.
- General receipts accounted for \$26,466,895 in revenue or 86 percent of all receipts. Program specific receipts in the form of charges for services, grants, and contributions accounted for \$4,223,595 or 14 percent of total receipts of \$30,690,490.
- The School District had \$29,546,907 in expenses; only \$4,223,595 of these expenses were offset by program specific charges for services, grants, and contributions. General receipts of \$26,466,895 were adequate to provide for these programs.
- The School District has three major funds which include the general, debt service, and the permanent improvement fund. The general fund had \$24,717,769 in receipts and other sources and \$24,038,695 in disbursements and other uses. The general fund's balance increased \$679,074. The debt service fund had \$14,376,241 in receipts and other sources and \$13,860,510 in disbursements and other uses. The Debt Service fund balance increased \$515,731. The permanent improvement fund had \$900,590 in receipts and other sources and \$551,032 in disbursements and other uses. The Permanent Improvement fund balance increased \$349,558.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Southwest Licking Local School District as a financial whole, including its component unit. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities, which provide information about the activities of the whole School District, present an aggregate view of the School District's 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 non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these documents contain information about the large number of funds used by the School District to provide programs and activities for students, 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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements are presented in the modified cash basis of accounting.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

This is a comprehensive basis of accounting other than GAAP that uses the cash basis of accounting, the recording of transactions resulting from cash receipts and disbursements, with modifications having substantial support.

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's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all reported as Governmental.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of 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 permanent improvement 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 fiscal year end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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.

Fiduciary Funds These funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District has student activity and unclaimed money agency funds.

The School District as a Whole

Table 1 shows the changes in net assets for the fiscal year ended June 30, 2005.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 2005 | 2004 |
| Receipts | | |
| Program Receipts | | |
| Charges for Services | \$ 1,814,336 | \$ 1,534,527 |
| Operating Grants, Contributions and Interest | 2,381,360 | 3,090,760 |
| Capital Grants and Contributions | 27,899 | 1,718,776 |
| Total Program Receipts | 4,223,595 | 6,344,063 |
| General Receipts | | |
| Property Taxes | 10,888,881 | 10,352,394 |
| Income Taxes | 3,262,415 | 3,014,457 |
| Grants and Entitlements | 11,973,539 | 11,130,041 |
| Investment Earnings | 98,828 | 63,443 |
| Sale of Capital Assets | 1,753 | - |
| Premium on Refunding Bonds | 26,502 | - |
| Miscellaneous | 214,977 | 54,777 |
| Total General Receipts | 26,466,895 | 24,615,112 |
| Total Receipts | 30,690,490 | 30,959,175 |
| Program Expenditures | | |
| Instruction: | | |
| Regular | 11,300,024 | 11,793,236 |
| Special | 2,618,627 | 2,523,762 |
| Vocational | 478,905 | 658,846 |
| Other | 1,058,444 | 925,031 |
| Support Services: | | |
| Pupils | 1,612,627 | 1,454,212 |
| Instructional Staff | 900,219 | 950,621 |
| Board of Education | 30,972 | 20,369 |
| Administration | 2,125,400 | 2,295,587 |
| Fiscal | 628,544 | 699,523 |
| Business | 84,437 | 86,162 |
| Operation and Maintenance of Plant | 2,244,959 | 2,339,758 |
| Pupil Transportation | 1,497,404 | 1,924,313 |
| Central | 662,922 | 407,673 |
| Operation of Non-Instructional Services | 176,535 | 73,244 |
| Operation of Food Service | 1,052,069 | 937,684 |
| Extracurricular Activities | 797,972 | 1,007,101 |
| Capital Outlay | 481,824 | 1,517,082 |
| Debt Service: | | |
| Principal Retirement | 947,929 | 606,320 |
| Interest and Fiscal Charges | 847,094 | 1,120,659 |
| Total Program Expenditures | 29,546,907 | 31,341,183 |
| Increase (decrease) in Net Assets | \$ 1,143,583 | \$ (382,008) |

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35 annually in taxes. If three years later, the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would be .5 mills and the owner would still pay \$35.

Our school district, which is dependent on property taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 35 percent of receipts for governmental activities for the Southwest Licking Local School District in fiscal year 2005.

Over the past several years the School District has experienced a significant amount of growth. The District is located in Licking and Fairfield Counties, and includes the City of Pataskala, the Village of Kirkersville and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The total assessed property values upon which taxes are collected increased by \$28,715,216 from fiscal year 2004 to fiscal year 2005.

Instruction comprises 52 percent of governmental program disbursements and support services make up 33 percent of the program disbursements of the District.

Overall disbursements for the District decreased by \$1,794,276 or 5.7% as a result of prudent fiscal management by the Board of Education and the administration of the District.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 2 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax receipts and unrestricted state entitlements.



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**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2
Governmental Activities

| | Total Cost of Services 2005 | Net Cost of Services 2005 | Total Cost of Services 2004 | Net Cost of Services 2004 |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program Disbursements | | | | |
| Instruction: | | | | |
| Regular | \$ 11,300,024 | \$10,844,020 | \$ 11,793,236 | \$ 11,325,979 |
| Special | 2,618,627 | 1,048,804 | 2,523,762 | 1,217,122 |
| Vocational | 478,905 | 437,919 | 658,846 | 622,408 |
| Other | 1,058,444 | 1,058,444 | 925,031 | 925,031 |
| Support Services: | | | | |
| Pupils | 1,612,627 | 1,481,427 | 1,454,212 | 1,354,931 |
| Instructional Staff | 900,219 | 753,598 | 950,621 | 744,499 |
| Board of Education | 30,972 | 30,972 | 20,369 | 20,369 |
| Administration | 2,125,400 | 2,125,400 | 2,295,587 | 2,245,624 |
| Fiscal | 628,544 | 628,544 | 699,523 | 680,920 |
| Business | 84,437 | 80,209 | 86,162 | 86,162 |
| Operation and Maintenance of Plant | 2,244,959 | 2,221,774 | 2,339,758 | 2,296,946 |
| Pupil Transportation | 1,497,404 | 1,467,142 | 1,924,313 | 982,197 |
| Central | 662,922 | 575,621 | 407,673 | 354,414 |
| Operation of Non-Instructional Services | 176,535 | 27,368 | 73,244 | (20,335) |
| Operation of Food Service | 1,052,069 | 92,570 | 937,684 | 52,774 |
| Extracurricular Activities | 797,972 | 172,553 | 1,007,101 | 555,139 |
| Capital Outlay | 481,824 | 481,824 | 1,517,082 | (132,918) |
| Debt Service: | | | | |
| Principal Retirement | 947,929 | 947,929 | 606,320 | 567,666 |
| Interest and Fiscal Charges | 847,094 | 847,094 | 1,120,659 | 1,118,192 |
| Total Program Disbursements | <u>\$ 29,546,907</u> | <u>\$25,323,212</u> | <u>\$31,341,183</u> | <u>\$ 24,997,120</u> |

The dependence upon tax receipts and unrestricted state entitlements is apparent as over 87 percent of instruction activities are supported through taxes and other general receipts for fiscal year 2005 which is comparable to the 89% during fiscal year 2004. However, it should be noted that special instruction activities are largely provided through program receipts, by over 60 percent and 48 percent for fiscal year 2005 and 2004, respectively. That is the result of operating grants and contributions restricted for special instruction purposes

Overall, the above schedule clearly shows the dependence upon tax receipts and state subsidies for governmental activities. For fiscal year 2005, only 14 percent of the governmental activities performed by the District are supported through program receipts such as charges for services, grants and contributions. The remaining 86 percent is provided through taxes and entitlements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The School District Funds

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$30,662,235 and disbursements of \$29,694,871.

Table 3
Fund Balance Analysis

| | Fund Balances June 30, 2005 | Fund Balances June 30, 2004 | Increase (Decrease) |
|-----------------------|--------------------------------|--------------------------------|------------------------|
| Major funds: | | | |
| General | \$1,105,578 | \$426,504 | \$679,074 |
| Debt Service | 1,037,111 | 521,380 | 515,731 |
| Permanent Improvement | 628,001 | 278,443 | 349,558 |
| Other nonmajor funds | 650,375 | 1,051,155 | (400,780) |
| Total | \$3,421,065 | \$2,277,482 | \$1,143,583 |

The prior year financial statements also included the building fund and the food service fund as major funds. This year those funds did not meet the definition of a major and for comparison purposes they were consolidated into the other nonmajor fund category.

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.

During the course of fiscal 2005, the School District amended its general fund budget, but not significantly. The School District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

For the general fund the final estimated revenue was \$24,503,624 which represents an increase of \$4,616 over the original estimated revenue.

The School District's ending unobligated cash balance in the General Fund was \$1,013,032.



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**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Debt Administration

Debt

At June 30, 2005, the School District had \$22,509,975 in long-term obligations. Due to prudent spending and continuous monitoring of all receipts and disbursements, our bond rating is AAA.

Table 3
Outstanding Debt, at Fiscal Year End

| | Governmental Activities 2005 | Governmental Activities 2004 |
|---|------------------------------------|------------------------------------|
| | <u>2005</u> | <u>2004</u> |
| 1999 School Improvement General Obligation Bonds | \$4,435,000 | \$16,175,000 |
| 2005 Construction Bond General Obligation Bond - Refunded | 11,164,987 | - |
| 2003 Etna Elementary General Obligation Bond - Refunded | 5,354,988 | 5,559,988 |
| 2003 HB264 Energy Conservation Notes | <u>1,555,000</u> | <u>1,650,000</u> |
| Totals | <u>\$22,509,975</u> | <u>\$23,384,988</u> |

See Note 14 for more detailed information about the School District's debt.

Economic Factors

The District's current five-year forecast is projecting a deficit beginning in fiscal year 2009 through fiscal year 2010. In November 2004 the District passed a permanent improvement renewal levy of 2.8 mills for five additional years. In May of 2005, the voters approved a \$3,250,000 a year emergency operating levy for a five year period.

The Board of Education and administration of the School District must continue to maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District as well as careful planning to ensure that significant outlays may be made in the future to address our facility needs.

The District is currently working with the Ohio School Facilities Commission and has completed the master plan for the School District. The District is currently part of the Expedited Local Partnership program with the Ohio School Facilities Commission. Since the master plan has been developed and agreed to, any projects completed by the District, that are included in the master plan, will be credited toward the School District's local share of funding for completion of the master plan.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)*

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 Richard D. Jones, Treasurer/CFO at Southwest Licking Local School District, P.O. Box 180, Etna, Ohio 43018-0180. Or E-Mail at rdjones@laca.org.



**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

***Statement of Net Assets - Modified Cash Basis
June 30, 2005***

| | Primary Government | Component Unit |
|--|----------------------------|--|
| | Governmental Activities | Southwest Licking Digital Academy |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 3,421,065 | \$ 111,380 |
| <i>Total Assets</i> | \$ 3,421,065 | \$ 111,380 |
| Net Assets | | |
| Restricted for: | | |
| Capital Projects | \$ 628,504 | \$ - |
| Debt Service | 1,037,111 | - |
| Other Purposes | 158,758 | - |
| Unrestricted | 1,596,692 | 111,380 |
| <i>Total Net Assets</i> | \$ 3,421,065 | \$ 111,380 |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005**

| | Program Cash Receipts | | | | Net (disbursements) Receipts and Changes in Net Assets | |
|--|-----------------------|--------------------------------------|--|--|---|-------------------|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Primary | Component |
| | | | | | Governmental | Unit |
| | | | | Governmental | Southwest Licking Digital Academy | |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 11,300,024 | \$ 356,267 | \$ 99,737 | \$ - | \$ (10,844,020) | \$ - |
| Special | 2,618,627 | 79,390 | 1,490,333 | - | (1,048,904) | - |
| Vocational | 478,905 | - | 40,986 | - | (437,919) | - |
| Other | 1,058,444 | - | - | - | (1,058,444) | - |
| Support Services: | | | | | | |
| Pupil | 1,612,627 | - | 131,200 | - | (1,481,427) | - |
| Instructional Staff | 900,219 | - | 146,621 | - | (753,598) | - |
| Board of Education | 30,972 | - | - | - | (30,972) | - |
| Administration | 2,125,400 | - | - | - | (2,125,400) | - |
| Fiscal | 628,544 | - | - | - | (628,544) | - |
| Business | 84,437 | - | 4,228 | - | (80,209) | - |
| Operation and Maintenance of Plant | 2,244,959 | 23,185 | - | - | (2,221,774) | - |
| Pupil Transportation | 1,497,404 | - | 2,363 | 27,899 | (1,467,142) | - |
| Central | 662,922 | - | 87,301 | - | (575,621) | - |
| Operation of Non-Instructional Services | 176,535 | - | 149,167 | - | (27,368) | - |
| Operation of Food Services | 1,052,069 | 730,075 | 229,424 | - | (92,570) | - |
| Extracurricular Activities | 797,972 | 625,419 | - | - | (172,553) | - |
| Capital Outlay | 481,824 | - | - | - | (481,824) | - |
| Debt Service: | | | | | | |
| Principal Retirement | 947,929 | - | - | - | (947,929) | - |
| Interest and Fiscal Charges | 847,094 | - | - | - | (847,094) | - |
| Totals | 29,546,907 | 1,814,336 | 2,381,360 | 27,899 | (25,323,312) | - |
| Component Unit | | | | | | |
| Southwest Licking Digital Academy | 188,183 | - | 234,127 | - | - | 45,944 |
| General Receipts | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 8,102,649 | - |
| Capital Outlay | | | | | 796,625 | - |
| Debt Service | | | | | 1,989,607 | - |
| Income Taxes Levied for General Purposes | | | | | 3,262,415 | - |
| Grants and Entitlements not restricted to Specific Programs | | | | | 11,973,539 | - |
| Investment Earnings | | | | | 98,828 | 494 |
| Sale of Capital Assets | | | | | 1,753 | - |
| Premium on Refunding Bonds | | | | | 26,502 | - |
| Miscellaneous | | | | | 214,977 | - |
| Total General Receipts | | | | | 26,466,895 | 494 |
| Change in Net Assets | | | | | 1,143,583 | 46,438 |
| Net Assets Beginning of Year (Restated) | | | | | 2,277,482 | 64,942 |
| Net Assets End of Year | | | | | \$ 3,421,065 | \$ 111,380 |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2005**

| | General | Debt Service | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 1,105,578 | \$ 1,037,111 | \$ 628,001 | \$ 650,375 | \$ 3,421,065 |
| <i>Total Assets</i> | <u>\$ 1,105,578</u> | <u>\$ 1,037,111</u> | <u>\$ 628,001</u> | <u>\$ 650,375</u> | <u>\$ 3,421,065</u> |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 92,547 | - | 350,587 | 7,005 | 450,139 |
| Unreserved: | | | | | |
| Undesignated, Reported in: | | | | | |
| General Fund | 1,013,031 | - | - | - | 1,013,031 |
| Special Revenue Funds | - | - | - | 642,866 | 642,866 |
| Debt Service Fund | - | 1,037,111 | - | - | 1,037,111 |
| Capital Projects Funds | - | - | 277,414 | 504 | 277,918 |
| <i>Total Fund Balances</i> | <u>\$ 1,105,578</u> | <u>\$ 1,037,111</u> | <u>\$ 628,001</u> | <u>\$ 650,375</u> | <u>\$ 3,421,065</u> |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

| | General | Debt Service Fund | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------|--------------------------|--------------------------------|--------------------------------|
| Receipts | | | | | |
| Property and Other Local Taxes | \$ 8,102,649 | \$ 1,989,607 | \$ 796,625 | \$ - | \$ 10,888,881 |
| Income Tax | 3,262,415 | - | - | - | 3,262,415 |
| Intergovernmental | 12,718,437 | 243,704 | 93,469 | 1,327,188 | 14,382,798 |
| Interest | 62,576 | - | 10,496 | 25,756 | 98,828 |
| Tuition and Fees | 302,910 | - | - | - | 302,910 |
| Extracurricular Activities | 3,020 | - | - | 578,654 | 581,674 |
| Contributions and Donations | 25,530 | - | - | - | 25,530 |
| Charges for Services | 176,492 | - | - | 730,075 | 906,567 |
| Rentals | 23,185 | - | - | - | 23,185 |
| Miscellaneous | 38,802 | 10,298 | - | 140,347 | 189,447 |
| <i>Total Receipts</i> | <u>24,716,016</u> | <u>2,243,609</u> | <u>900,590</u> | <u>2,802,020</u> | <u>30,662,235</u> |
| Disbursements | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 11,132,989 | | 51,089 | 115,946 | 11,300,024 |
| Special | 2,025,596 | | - | 593,031 | 2,618,627 |
| Vocational | 478,526 | | - | 379 | 478,905 |
| Other | 1,058,444 | | - | - | 1,058,444 |
| Support Services: | | | | | |
| Pupil | 1,565,292 | | - | 47,335 | 1,612,627 |
| Instructional Staff | 758,534 | | - | 141,685 | 900,219 |
| Board of Education | 30,972 | | - | - | 30,972 |
| Administration | 2,125,400 | | - | - | 2,125,400 |
| Fiscal | 583,420 | 32,286 | 12,838 | - | 628,544 |
| Business | 63,100 | | 17,337 | 4,000 | 84,437 |
| Operation and Maintenance of Plant | 2,147,336 | | 91,980 | 5,643 | 2,244,959 |
| Pupil Transportation | 1,494,820 | | - | 2,584 | 1,497,404 |
| Central | 303,978 | | 291,088 | 67,856 | 662,922 |
| Operation of Non-Instructional Services | - | | - | 176,535 | 176,535 |
| Operation of Food Services | - | | - | 1,052,069 | 1,052,069 |
| Extracurricular Activities | 187,358 | | - | 610,614 | 797,972 |
| Capital Outlay | - | | 86,700 | 395,124 | 481,824 |
| Debt Service: | | | | | |
| Principal Retirement | 72,929 | 875,000 | - | - | 947,929 |
| Interest and Fiscal Charges | - | 847,094 | - | - | 847,094 |
| Bond Issuance Costs | - | 147,964 | - | - | 147,964 |
| <i>Total Disbursements</i> | <u>24,028,694</u> | <u>1,902,344</u> | <u>551,032</u> | <u>3,212,801</u> | <u>29,694,871</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>687,322</u> | <u>341,265</u> | <u>349,558</u> | <u>(410,781)</u> | <u>967,364</u> |
| Other Financing Sources (Uses) | | | | | |
| Sale of Capital Assets | 1,753 | - | - | - | 1,753 |
| Proceeds of Refunding Bonds | - | 11,164,987 | - | - | 11,164,987 |
| Premium on Refunding Bonds | - | 967,645 | - | - | 967,645 |
| Advances In | - | - | - | 10,001 | 10,001 |
| Payment to Refunded Bond Escrow Agent | - | (11,958,166) | - | - | (11,958,166) |
| Advances Out | (10,001) | - | - | - | (10,001) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(8,248)</u> | <u>174,466</u> | <u>-</u> | <u>10,001</u> | <u>176,219</u> |
| <i>Net Change in Fund Balances</i> | 679,074 | 515,731 | 349,558 | (400,780) | 1,143,583 |
| <i>Fund Balances Beginning of Year (Restated)</i> | <u>426,504</u> | <u>521,380</u> | <u>278,443</u> | <u>1,051,155</u> | <u>2,277,482</u> |
| <i>Fund Balances End of Year</i> | <u>\$ 1,105,578</u> | <u>\$ 1,037,111</u> | <u>\$ 628,001</u> | <u>\$ 650,375</u> | <u>\$ 3,421,065</u> |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Property Taxes | \$ 7,870,094 | \$ 7,870,094 | \$ 8,102,649 | \$ 232,555 |
| Income Tax | 3,214,545 | 3,214,545 | 3,262,415 | 47,870 |
| Intergovernmental | 12,859,894 | 12,859,894 | 12,718,437 | (141,457) |
| Interest | 50,000 | 50,000 | 62,576 | 12,576 |
| Tuition and Fees | 253,924 | 253,924 | 302,910 | 48,986 |
| Extracurricular Activities | 4,768 | 4,768 | 3,020 | (1,748) |
| Contributions and Donations | 26,598 | 26,598 | 25,530 | (1,068) |
| Charges for Services | 159,983 | 159,983 | 176,492 | 16,509 |
| Rentals | 24,024 | 24,024 | 23,185 | (839) |
| Miscellaneous | 35,178 | 35,178 | 38,802 | 3,624 |
| <i>Total receipts</i> | <u>24,499,008</u> | <u>24,499,008</u> | <u>24,716,016</u> | <u>217,008</u> |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,231,439 | 11,188,028 | 11,133,918 | 54,110 |
| Special | 2,052,944 | 2,053,242 | 2,025,773 | 27,469 |
| Vocational | 501,912 | 499,050 | 484,992 | 14,058 |
| Other Instruction | 1,070,890 | 1,082,780 | 1,058,444 | 24,336 |
| Support Services: | | | | |
| Pupil | 1,675,921 | 1,604,827 | 1,568,013 | 36,814 |
| Instructional Staff | 782,942 | 796,105 | 776,245 | 19,860 |
| Board of Education | 27,030 | 33,630 | 30,972 | 2,658 |
| Administration | 2,246,986 | 2,180,179 | 2,128,088 | 52,091 |
| Fiscal | 623,764 | 595,506 | 585,835 | 9,671 |
| Business | 66,836 | 76,240 | 63,100 | 13,140 |
| Operation and Maintenance of Plant | 2,358,513 | 2,211,738 | 2,151,221 | 60,517 |
| Pupil Transportation | 1,578,359 | 1,568,456 | 1,550,375 | 18,081 |
| Central | 398,780 | 332,788 | 303,978 | 28,810 |
| Extracurricular Activities | 207,213 | 199,419 | 187,358 | 12,061 |
| Debt Service | 54,828 | 73,828 | 72,928 | 900 |
| <i>Total Disbursements</i> | <u>24,878,357</u> | <u>24,495,816</u> | <u>24,121,240</u> | <u>374,576</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(379,349)</u> | <u>3,192</u> | <u>594,776</u> | <u>591,584</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | - | 4,616 | 1,753 | (2,863) |
| Advances Out | (13,290) | - | (10,001) | (10,001) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(13,290)</u> | <u>4,616</u> | <u>(8,248)</u> | <u>(12,864)</u> |
| <i>Net Change in Fund Balance</i> | <u>(392,639)</u> | <u>7,808</u> | <u>586,528</u> | <u>578,720</u> |
| <i>Fund Balance Beginning of Year</i> | <u>339,416</u> | <u>339,416</u> | <u>339,416</u> | |
| Prior Year Encumbrances Appropriated | <u>87,088</u> | <u>87,088</u> | <u>87,088</u> | |
| <i>Fund Balance End of Year</i> | <u>\$ 33,865</u> | <u>\$ 434,312</u> | <u>\$ 1,013,032</u> | <u>\$ 578,720</u> |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

***Statement of Fiduciary Assets and Liabilities - Modified Cash Basis
Fiduciary Funds
June 30, 2005***

| | <u>Agency</u> |
|--|------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$ 37,353 |
| <i>Total Assets</i> | <u>\$ 37,353</u> |
| Liabilities | |
| Held for Student Activities | \$ 19,668 |
| Due to Others | <u>17,685</u> |
| <i>Total Liabilities</i> | <u>\$ 37,353</u> |

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1953 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 65 square miles. It is located in Licking County, and includes the City of Pataskala, the Village of Kirkersville and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The School District is staffed by 135 classified employees, 239 certificated full-time teaching personnel, and 13 administrative employees who provide services to 3,623 students and other community members. The School District currently operates six instructional buildings, one administrative building, and one support service building.

Reporting Entity

The reporting entity is 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 provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

In March of 2003, the Board of Education, by resolution, created the Southwest Licking Digital Academy (the Academy) pursuant to the laws of the State of Ohio. The Academy is a legally separate entity which is governed by a five member board. The School District appoints three of the five appointed members. The Academy was created to provide a computer based education to students within the School District. The Academy's board may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The Academy is presented as a discretely presented component unit since the School District appoints the majority of the Academy's board.

The following activities are included within the reporting entity:

Private School - Liberty Christian Academy, a private school, operates within the School District's boundaries. Current State legislation provides funding to the private school. This money is received and disbursed on behalf of the private school by the Treasurer of the School District, as directed by the private school in accordance with State rules and regulations. This activity is reflected in a special revenue fund for financial reporting purposes.

The School District participates in four jointly governed organizations, two insurance purchasing pools, and is associated with one related organization. These organizations are the Licking Area Computer Association, the Metropolitan Educational Council, Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, the Ohio School Boards Association Workers Compensation Group Rating Plan, the Ohio School Plan, and the Pataskala Public Library. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable. In the government-wide and fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989 in the government-wide financial statements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements are prepared on the modified cash basis of accounting and consist of government-wide statement, 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 cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the School District's general receipts.

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 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.

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 two categories of funds for the School District: governmental and fiduciary.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are descriptions of the School District's major governmental funds:

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs.

Permanent Improvement Fund - The permanent improvement fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

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

Fiduciary Fund Type 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. The School District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities and unclaimed monies.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Investments

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

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Cash and Investments (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, the School District invested in federal agency securities and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts recorded by the District during fiscal year 2005 amounted to \$98,828. Of this amount, the General Fund recorded \$62,576, which included \$34,817 assigned from other School District funds.

E. Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund. The General Fund has been presented at the at the function level for comparative purposes.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect at the time final appropriations were passed.

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

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets are not recognized in any of the School District's funds in accordance with the modified cash basis of accounting. Instead, capital acquisition and construction costs are reflected as disbursements in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

G. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the cash basis of accounting.

I. Long-Term Liabilities

Modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made. Lease payments are reported when paid.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes.

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

K. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

Note 3 – Change in Accounting Principle and Restatement of Fund Equity

- A.** In March of 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principle areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that included investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for financial statements for the year ending June 30, 2005. The implementation had no material effect on the financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 3 – Change in Accounting Principle and Restatement of Fund Equity (Continued)

- B. In the prior year, the Unclaimed Fund was improperly reported as a Special Revenue Fund. This activity should have been reported as an Agency Fund.

The restatement had the following effect on the cash fund balance on July 1, 2004.

| | Other Governmental Funds | Fiduciary Funds |
|---|--------------------------------|--------------------|
| Cash fund balance as of June 30, 2004, as previously reported | \$1,067,586 | \$15,935 |
| Restatement to properly report agency activity | (16,431) | 16,431 |
| Restated cash fund balance as of July 1, 2004 | \$1,051,155 | \$32,366 |

Note 4 – Compliance

- A. Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.
- B. Ohio Rev. Code Section 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection. However, athletic gate admission receipts were held up to two months before deposit with the District's Treasurer and/or financial institution.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$92,547.

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 6 - Deposits and Investments (Continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the 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.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$273,779 of the School District's bank balance of \$373,770 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 6 - Deposits and Investments (Continued)

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2005, the School District had the following investments.

| | <u>Carrying Value</u> | <u>Maturity</u> |
|-----------------------------|-----------------------|-----------------|
| Federal Home Loan Bank Note | \$250,846 | 7/22/05 |
| Federal Home Loan Bank Note | 150,000 | 10/30/06 |
| Federal Home Loan Bank Note | 150,000 | 11/21/06 |
| STAR Ohio | 3,216,594 | 30 Days |
| Total Investments | <u>\$3,767,440</u> | |

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk The District's investments in STAR Ohio are rated AAAm by Standard & Poor's. U.S. government agency securities are not considered to have credit risk.

Concentration of Credit Risk The investment policy of the District authorizes the Treasurer to invest a maximum of twenty-five percent (25%) of the District's interim funds in either or a combined total of commercial paper notes (defined in the policy) and bankers acceptances of banks that are members of the FDIC with further defined restrictions in the investment policy of the District. Investments in Federal Home Loan Bank issues represented 15 percent, and STAR Ohio represented 85 percent of the School District's total investments.

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 property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually.

If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 7 - Property Taxes (Continued)

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2004, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Licking and Fairfield Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

| | 2004 Second - Half Collections | | 2005 First- Half Collections | |
|--|-----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/ Residential and Other Real Estate | \$407,788,740 | 93.79% | \$438,301,760 | 94.56% |
| Public Utility Personal | 17,492,840 | 4.02% | 16,647,680 | 3.59% |
| Tangible Personal Property | 9,506,430 | 2.19% | 8,553,786 | 1.85% |
| Total | \$434,788,010 | 100.00% | \$463,503,226 | 100.00% |
| Full Tax rate per \$1,000 of assessed valuation | \$33.70 | | \$33.70 | |

Note 8 – Income Tax

The School District levies a voted continuing tax of .75 percent for general operations on the income of residents and of estates. The tax went into effect on February 15, 1990 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 9 - Risk Management

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 2005, the School District contracted with Indiana Insurance for property, builder's risk, liability and fleet insurances.

Coverage provided is as follows:

| | |
|---|--------------|
| Building and Contents-replacement cost (\$5,000 deductible) | \$63,408,028 |
| Accounts Receivable (\$5,000 deductible) | 100,000 |
| Equipment (\$250 deductible) | 85,000 |
| Extra Expense | 360,000 |
| Errors and Omissions | 1,000,000 |
| | |
| Fleet Insurance | 1,000,000 |
| | |
| Educational General Liability | |
| Per occurrence | 1,000,000 |
| Aggregate per year | 2,000,000 |
| | |
| Employee Benefits Liability | |
| Per occurrence | 1,000,000 |
| Aggregate per year | 3,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal year 2004.

B. Workers Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14) 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.

Note 10 - Employee Benefits

A. Health Care Benefits

The School District provides health and drug insurance for all eligible employees through United Healthcare. The School District pays medical and drug monthly premiums for staff, family, and single coverage. The School District also provides dental insurance for all eligible employees through Coresource. The School District provides life insurance and accidental death and dismemberment insurance to most employees through Ameritas Life Insurance Company. Premiums are paid from the same funds that pay the employees' salaries.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 10 - Employee Benefits (Continued)

B. Retirement Incentive

The School District offers a \$10,000 retirement incentive to certified employees that retire as soon as the employee is eligible with 30 years of experience. A \$7,500 retirement incentive is given to certified employees that pass up the first year of eligibility but elect to retire in the subsequent year. The retirement incentive is paid out to employees in January following the date of retirement. In addition to the negotiated \$10,000 retirement incentive to certified employees, the Board of Education offered an additional retirement incentive of \$25,000. Only certificated staff members who are eligible to retire prior to September 1, 2004 were eligible for this additional retirement incentive. The \$25,000 will be paid out in two 50% installments: 50% in July, 2005, and 50% in July, 2006.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by 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.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$575,928, \$333,107, and \$297,425, respectively.

B. 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. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 11 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent.

Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$1,831,420, \$1,618,022, and \$1,732,056, respectively. Contributions to the DC and Combined Plans for fiscal year 2005 were \$15,311 made by the School District and \$47,697 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, two members of the Board of Education elected Social Security. Members contribute 6.2 percent of wages paid. The School District's share is 6.2 percent.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 12 - Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$128,047 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty rate.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits during the 2005 fiscal year equaled \$628,713.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), 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 – Lease Obligations

The District has entered into capitalized leases for copiers and computers. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 13 – Lease Obligations (Continued)

The agreements provide for minimum annual rental payments as follows:

| Fiscal Year Ending June 30, | Amount |
|--|------------|
| 2006 | \$ 58,636 |
| 2007 | 50,259 |
| 2008 | 50,259 |
| 2009 | 50,259 |
| 2010 | 41,891 |
| Total Minimum Lease Payments | 251,304 |
| Less: Amount Representing Interest | 38,517 |
| Present Value of Minimum Lease Payment | \$ 212,787 |

Note 14 - Long Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

| | Principal Outstanding 6/30/2004 | Additions | Reductions | Principal Outstanding 6/30/2005 |
|--|---------------------------------------|---------------|---------------|---------------------------------------|
| Governmental Activities | | | | |
| Energy Conservation Notes 2003 1.2% - 4.1% | 1,650,000 | \$ - | \$ 95,000 | \$ 1,555,000 |
| Construction Bonds - Refunding 2005 Refinance - 3.76% | - | 11,164,987 | - | \$ 11,164,987 |
| Etna Elementary School Improvement Bond - Refunding 2003 1.2% - 4.4% | 5,559,988 | - | 205,000 | 5,354,988 |
| School Improvement Bond 1999 3.1% - 5.15% | 16,175,000 | - | 11,740,000 | 4,435,000 |
| Total Governmental Activities Long-Term Liabilities | \$ 23,384,988 | \$ 11,164,987 | \$ 12,040,000 | \$ 22,509,975 |

On April 1, 1995, the School District issued School Improvement Bonds for \$6,638,000, with a varying interest rate of 4.3 to 5.75%, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2023. The debt was being repaid by tax receipts through the bond retirement fund. On December 9, 2003, the School District refunded the 1995 bonds issue and issued new bonds with varying interest rate of 1.2% - 4.4%. Proceeds of \$5,559,988 were used to purchase securities which were placed in escrow to payoff the existing bonds as they mature. \$469,988 of the bonds were capital appreciation bonds. The interest accretion on the bonds as of June 30, 2005 is \$83,218.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 14 - Long Term Obligations (Continued)

On March 15, 1999, the School District issued School Facilities Construction and Improvement Bonds for \$19,120,000, with a varying interest rate of 3.1 to 5.15%, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2027. The debt is being repaid by tax receipts through the bond retirement fund.

On December 9, 2003, the School District issued unvoted Energy Conservation Notes for \$1,649,999, with a varying interest rate of 1.2% - 4.1%, for the purpose of installing energy conservation improvements for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a fifteen year period with final maturity during fiscal year 2019. \$74,999 of the notes were capital appreciation bonds. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. Tax revenues were allocated from the general fund to the bond retirement debt service fund to meet current fiscal year obligations. The interest accretion on the notes as of June 30, 2005 is \$6,380.

On March 8, 2005 the District issued refunding bonds in the amount of \$11,164,987 to advance refund a portion of the 1993 school improvement bonds and take advantage of lower interest rates. The bonds were sold at a premium in the amount of \$967,645. Bond issuance costs were \$147,964. \$11,958,166 was deposited in an irrevocable trust to provide for all future debt service payments on the refunded portion of the 1993 bonds. As a result, \$11,165,000 of the refunded bonds is considered defeased and is not reported as a liability of the School District. \$2,214,987 of the bonds were capital appreciation bonds. The interest accretion on the bonds as of June 30, 2005 is \$28,300.

Debt service requirements to maturity on the bonds are as follows:

| Fiscal Year Ending June 30, | School Improvement Bonds | | | |
|--------------------------------|----------------------------|--------------------|----------------------------|--------------------|
| | Issued in Fiscal Year 1999 | | Issued in Fiscal Year 2004 | |
| | Principal | Interest | Principal | Interest |
| 2006 | \$665,000 | \$220,498 | \$220,000 | \$171,162 |
| 2007 | 90,000 | 205,353 | 255,000 | 166,412 |
| 2008 | 135,000 | 200,673 | 275,000 | 160,769 |
| 2009 | 190,000 | 193,800 | 295,000 | 153,619 |
| 2010 | 225,000 | 184,869 | 340,000 | 144,462 |
| 2011-2015 | 1,260,000 | 835,475 | 1,443,481 | 1,082,625 |
| 2016-2020 | 1,870,000 | 111,263 | 1,026,507 | 1,227,090 |
| 2021-2025 | - | - | 1,500,000 | 102,464 |
| Total | <u>\$4,435,000</u> | <u>\$1,951,931</u> | <u>\$5,354,988</u> | <u>\$3,208,603</u> |

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 14 - Long Term Obligations (Continued)

| Fiscal Year Ending June 30, | HB 264 Energy Conservation Notes Issued in Fiscal Year 2004 | | Construction Bonds Refunding Issued in Year 2005 | |
|--------------------------------|--|------------------|---|--------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | 90,000 | 48,812 | \$215,000 | \$372,925 |
| 2007 | 90,000 | 47,012 | 730,000 | 358,750 |
| 2008 | 100,000 | 44,987 | 710,000 | 337,150 |
| 2009 | 100,000 | 42,487 | 685,000 | 315,369 |
| 2010 | 75,000 | 71,113 | 680,000 | 293,188 |
| 2011-2015 | 560,000 | 158,448 | 2,528,694 | 2,314,731 |
| 2016-2020 | 540,000 | 44,974 | 2,976,293 | 1,919,394 |
| 2021 – 2022 | - | - | 2,640,000 | 136,156 |
| Total | <u>\$1,555,000</u> | <u>\$457,833</u> | <u>\$11,164,987</u> | <u>\$6,047,663</u> |

Note 15 - Jointly Governed Organizations

A. 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 fourteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, 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 capital assets.

The School District's total payments to LACA for fiscal year 2005 were \$126,895. Financial statements for LACA can be obtained from their fiscal agent, the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

B. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 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's total payments to MEC for fiscal year 2005 were \$93,168. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

C. Central Ohio Special Education Regional Resource Center

The Central Ohio Educational Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 15 - Jointly Governed Organizations (Continued)

C. Central Ohio Special Education Regional Resource Center (Continued)

There is no financial commitment by the School District for its participation in the projects. The School District has one representative on the governing board. The School District did not make any contributions to COSERRC during fiscal year 2005. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

D. 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 maintain active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. School districts that elect to be associate members are entitled 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. In fiscal year 2005, the Board consisted of fourteen members. In fiscal year 2005, the School District did not make any contributions to the School Study Council of Ohio. Financial information may be obtained by contacting the School Study Council of Ohio at 4807 Evanswood Drive, Suite 300, Columbus, Ohio 43229.

Note 16 – Insurance Purchasing Pools

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association 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 the OSBA.

The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

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

Note 17 – Related Organization

Pataskala Public Library

The Pataskala Public Library is statutorily created as a separate and distinct political subdivision. Seven trustees of the District Library are appointed by the School District.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 17 – Related Organization (Continued)

Pataskala Public Library (Continued)

The board of trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Due process is required to remove board members. No subsidies are provided by the School District.

Note 18 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. 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, 2005.

B. Litigation

The School District is currently not a party to any material legal proceedings.

Note 19 – Related Party Transactions

The School District appoints three of the five Board members of its component unit, the Southwest Licking Digital Academy (the Academy). For the year ended June 30, 2005, the Academy paid \$456 to the School District for reimbursement of expenses incurred by Academy officials for mileage, meals, and other expenses to attend meetings at TRECA.

Per the School District's contract with the Academy, the Academy pays the School District from funding provided by the Ohio Department of Education pursuant to Ohio Rev. Code Section 3314.08, \$150 per student per year. For the year ended June 30, 2005, the Academy paid \$9,704 related to this provision of the contract. The Academy paid 100% related to the provision of this contract as of June 30, 2005.

Note 20 - Set asides

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

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

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 20 - Set asides (Continued)

| | Textbooks | Capital Improvements |
|---|-------------|-------------------------|
| Set-aside Reserve Balance as of June 30, 2004 | (\$708,723) | (\$20,164,798) |
| Current Year Set-aside Requirement | 497,316 | 497,316 |
| Qualifying Disbursements | (300,306) | 0 |
| Total | (\$511,713) | (\$19,667,482) |
| Set-aside Balance Carried Forward to Future Fiscal Years | (\$511,713) | (\$19,667,482) |

The School District issued \$19,120,000 in bonds in fiscal year 1999 to provide for renovations of Pataskala Elementary, Kirkersville Elementary, the middle and high schools. In addition, the School District issued \$1,650,000 in HB 264 Energy Conservation Notes in fiscal year 2004 that was used to make energy saving capital improvements throughout the District. These amounts are an allowable offset to future years for the capital improvements and maintenance set-aside. The negative amount is therefore presented as being carried forward to the next fiscal year.

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts below zero. These extra amounts in the textbooks and capital acquisition set-asides may be used to reduce the set-aside requirements of future years.

Note 21 – State School Funding

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

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

Note 22 – Southwest Licking Digital Academy Component Unit

A. Description of the School

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax exempt status. The Academy’s mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Southwest Licking Local School District, the sponsor school district, that desire a specific course not currently offered that is available through online instruction.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 22 – Southwest Licking Digital Academy Component Unit (Continued)

A. Description of the School (Continued)

The Academy was formally created on January 9, 2003, by entering a five year contract with the Southwest Licking Local School District (the Sponsor). The Academy was approved by the Sponsor through a preliminary agreement on June 20, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Sponsor's Treasurer also completes the role of Treasurer for the Academy.

The Academy operates under the direction of a five-member Board of Directors made up of three-members from the Southwest Licking Local School District and two-members from the public, both of which are appointed by the Sponsor. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. The second public member shall be a person who represents the interests of parents and students served by the conversion school.

The Academy is a component unit of the Sponsor. The sponsor appoints a majority of the Board of Directors and is able to impose its will on the Academy. The Sponsor can suspend the Academy's operations for any of the following reasons: 1) The Academy's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Academy's failure to meet generally accepted standards of fiscal management, 3) The Academy's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause.

The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the Academy and the children it serves. The Academy used the facilities of the Sponsor.

B. Summary of Significant Accounting Policies

Basis of Accounting

Although required by Ohio Rev. Code Section 3314.03 (A)(8), Ohio Administrative Code Section 117-2-03(B), and by the Academy's contract with its Sponsor to prepare its financial statements in accordance with generally accepted accounting principles (GAAP), officials of the Academy chose to prepare its financial statement on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Basis of Presentation

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 22 – Southwest Licking Digital Academy Component Unit (Continued)

B. Summary of Significant Accounting Policies (Continued)

Cash and Investments

All cash received by the Academy's Treasurer is maintained in a demand deposit account. The Academy had no investments during the year ended June 30, 2005.

Capital Assets

The Academy records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Special Education Weighted Program, and Parity Aid. Revenues received from these programs are recognized as operating cash receipts on the accompanying financial statement.

C. Deposits

At June 30, 2005, the carrying amount of the Academy's deposits was \$111,380 and the bank balance was \$111,494. Of the bank balance, \$100,000 was covered by federal depository insurance and \$11,494 was collateralized by the financial institution's public entity deposit pool. There are no significant statutory restrictions regarding the deposit of funds by the Academy.

D. Risk Management

Property and Liability

The Academy 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.

For the year ended June 30, 2005, the Academy contracted with agent Best Hoovler and McTeague Insurance Services for its insurance coverage through Indiana Insurance Company. The types and amounts of coverage provided are as follows:

| | |
|---|-------------|
| General Liability: | |
| Each Occurrence | \$1,000,000 |
| Damage to Rented Premises | 300,000 |
| Medical Expense Limit - Any One Person/Occurrence | 15,000 |
| Personal and Advertising Injury | 1,000,000 |
| General Aggregate | 2,000,000 |
| Products - Comp/Op Aggregate | 1,000,000 |
| Errors and Omissions (Deductible \$10,000) | |
| Each Occurrence | 5,000,000 |
| Aggregate Limit | 5,000,000 |

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 22 – Southwest Licking Digital Academy Component Unit (Continued)

D. Risk Management (Continued)

Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

E. Defined Benefit Pension Plans

School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by 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 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005 and 2004 were \$653 and \$210, respectively.

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. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

For the year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent.

Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2005 and 2004 were \$1,125 and \$210, respectively.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 22 – Southwest Licking Digital Academy Component Unit (Continued)

F. Contract with TRECA

The Academy entered into a one year contract on July 6, 2004, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of the Academy.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$ \$25,000 for the 2004-2005 school year.
- The Academy shall pay to TRECA \$3,550 per full-time high school students and \$2,550 per full-time K - 8 students enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

During year ended June 30, 2005, the Academy paid TRECA \$116,972 for these services. The Academy owed TRECA \$27,065 related to this contract as of June 30, 2005.

To obtain TRECA's audited June 30, 2005 financial statements, please contact Scott Armstrong, Treasurer, at scott@treca.org.

G. Purchased Services

For the year ended June 30, 2005, purchased service disbursements were for the following services:

| Type | Amount |
|-------------------------------------|------------------|
| Professional and Technical Services | \$132,704 |
| Property Services | 498 |
| Travel Mileage / Training Expenses | 576 |
| Communications | 554 |
| Tuition | 66 |
| Other | 451 |
| Total | <u>\$134,849</u> |

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 22 – Southwest Licking Digital Academy Component Unit (Continued)

H. Related Party Transactions

The Academy's Sponsor appoints all five Board members. The Academy is a component unit of the Sponsor. For the year ended June 30, 2005, the Academy paid \$456 to the Sponsor for reimbursement of expenses incurred by Academy officials' mileage, meals, and other expenses to attend meetings at TRECA.

Per the Academy's contract with its Sponsor, the Academy pays the Sponsor, from funding provided by the Ohio Department of Education pursuant to Ohio Rev. Code Section 3314.08, \$150 per student per year. For the year ended June 30, 2005, the Academy paid \$9,704 related to this provision of the contract. Of the total, \$3,249 was for the students in attendance for the initial period ending June 30, 2004. The Academy paid 100% related to the provision of this contract as of June 30, 2005.

I. Contingencies

Grants

The Academy 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The fiscal year 2005 review found the Academy was overpaid \$4,119. The Academy's fiscal year 2006 foundation receipts will be reduced by this amount.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| 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 Donation Program | - | 10.550 | \$0 | \$95,250 | \$0 | \$95,250 |
| School Breakfast Program | 048041-05PU-04/05 | 10.553 | 26,074 | 0 | 26,074 | 0 |
| National School Lunch Program | 048041-LLP4-04/05 | 10.555 | 194,023 | 0 | 194,023 | 0 |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 220,097 | 95,250 | 220,097 | 95,250 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education_Grants to States | 048041-6BSF-2004 046961-6BSF-2005 | 84.027 | 93,048 415,393 | 0 0 | 101,696 393,310 | 0 0 |
| Total Special Education_Grants to States | | | 508,441 | 0 | 495,006 | 0 |
| Title 1 Grants to Local Educational Agencies | 048041-C1S1-2004 048041-C1S1-2005 | 84.010 | 51,636 (21,168) 133,996 | 0 0 0 | 30,467 0 124,445 | 0 0 0 |
| Total Title 1 Grants to Local Educational Agencies | | | 164,464 | 0 | 154,912 | 0 |
| Safe and Drug-Free Schools and Communities State Grants | 048041-DRS1-2004 048041-DRS1-2005 | 84.186 | 5,517 1,227 | 0 0 | 9,519 1,200 | 0 0 |
| Total Safe and Drug-Free Schools State Grants | | | 6,744 | 0 | 10,719 | 0 |
| State Grants for Innovative Programs | 048041-C2S1-2004 048041-C2S1-2005 | 84.298 | 939 13,151 | 0 0 | 3,261 10,095 | 0 0 |
| Total State Grants for Innovative Programs | | | 14,090 | 0 | 13,356 | 0 |
| Education Technology State Grants | 048041-TJS1-2004 048041-TJS1-2005 | 84.318 | 10,768 3,983 | 0 0 | 9,064 3,983 | 0 0 |
| Total Education Technology State Grants | | | 14,751 | 0 | 13,047 | 0 |
| Improving Teacher Quality State Grants | 048041-TRS1-2004 048041-TRS1-2005 | 84.367 | 17,142 76,672 | 0 0 | 24,003 86,674 | 0 0 |
| Total Improving Teacher Quality State Grants | | | 93,814 | 0 | 110,677 | 0 |
| Total U.S. Department of Education | | | 802,304 | 0 | 797,717 | 0 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | |
| <i>Passed Through Ohio Department of MR/DD:</i> | | | | | | |
| State Children's Insurance Program (SCHIP) | 4501060 | 93.767 | 12,113 | 0 | 12,113 | 0 |
| Medical Assistance Program Community Alternative Funding System (CAFS) | 4501060 | 93.778 | 93,995 | 0 | 93,995 | 0 |
| Total U.S. Department of Health and Human Services | | | 106,108 | 0 | 106,108 | 0 |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | | | | |
| <i>Passed Through Ohio Department of Emergency Management Agency:</i> | | | | | | |
| Public Assistance Grant Program | 1580-DR-089UDNC5 | 97.036 | 9,946 | 0 | 9,946 | 0 |
| Total U.S. Department of Homeland Security | | | 9,946 | 0 | 9,946 | 0 |
| Totals | | | \$1,138,455 | \$95,250 | \$1,133,868 | \$95,250 |

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

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - TRANSFERS BETWEEN COST CENTERS

In 2003, the grant periods were modified by ODE to agree with the fiscal year of school districts. The grant periods changed from a 27 month period ending on September 30 to a 12 month period ending on June 30. A transfer was made between the 2004 and 2005 grant years for the Title 1 Grants to Local Educational Agencies grant (CFDA #84.010) in the amount of \$21,168.



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*

Southwest Licking Local School District
Licking County
P.O. Box 180
Etna, Ohio 43018-0180

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Southwest Licking Local School District, Licking County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 23, 2006, wherein we noted the District did not prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated March 23, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-003 and 2005-004. In a separate letter to the District's management dated March 23, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

March 23, 2006



Auditor of State Betty Montgomery

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

Southwest Licking Local School District
Licking County
P.O. Box 180
Etna, Ohio 43018-0180

To the Board of Education:

Compliance

We have audited the compliance of Southwest Licking 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 each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of the Southwest Licking Digital Academy, which received \$XX in federal awards which is not included in the Federal Awards Receipts and Expenditure Schedule for the year ended June 30, 2005. Our audit of Federal awards, described below, did not include the operations of the Southwest Licking Digital Academy because the component unit is legally separate from the primary government this report addresses, and because it had no expenditures of federal awards for the year ended June 30, 2005, it was not subject to OMB Circular A-133 audit requirements.

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 District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated March 23, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

March 23, 2006

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133§ .505
JUNE 30, 2005**

| |
|--|
| 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)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (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): | Title 1 - #84.010 Special Education Grants to States- #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 |

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133§ .505
JUNE 30, 2005
(Continued)**

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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Finding Number 2005-001

Student Activities

The District should have internal control polices and procedures to ensure student activity advisors complete and submit sales project potential forms upon completion of all fund raising projects. Such policies should include the proper use of District forms and effective internal controls over collecting and/or remitting fundraiser receipts, including supporting documentation that should be maintained for each activity.

Sales project potential forms were not completed and submitted by activity advisors upon completion of fund raising projects for forty-two percent of the activities selected for testing.

The lack of effective internal controls increases the risk of undetected errors or fraud.

We recommend that sale project potential forms be completed for all fund raising projects. The Treasurer should develop procedures to monitor fund raising events to ensure sales project potential forms have been completed and submitted by activity advisors.

Management's Response:

The Southwest Licking Board of Education created a full time Director of Financial Services position in January 2006 to replace two half-time positions that were cut from the Treasurer's Office. Part of the responsibilities of this new position is to monitor student activity programs for compliance with the policies of the SWL Board of Education and Ohio Law. The School District expects a significant improvement in internal controls over student activity programs.

Finding Number 2005-002

Athletic Gate Admission Receipts

The District should have internal control polices and procedures to ensure the Athletic Director completes and submits ticket accountability forms upon completion of all athletic events and that such forms are submitted to the Treasurer's Office in a timely manner.

Of the events tested, 31% of the ticket accountability forms/pay-ins tested were not submitted to the Treasurer's Office for a week or more after the event. Of the forms tested, 8% were submitted one week after the event, 4% were submitted three weeks after the event, 15% were submitted four weeks after the event, and 4% were submitted six weeks after the event. In addition, we also noted no ticket accountability form was submitted or receipts collected for two events held. The Athletic Director indicated he had insufficient help for all activities on that date and chose to collect for the event that generated the most receipts.

The lack of effective internal controls over these receipts increases the risk of undetected errors or fraud.

We recommend that ticket accountability forms be completed by the Athletic Director after each athletic event and that these forms be submitted to the Treasurer's office in a timely manner. The Treasurer should develop procedures to monitor athletic events to ensure ticket accountability forms have been completed and submitted by the Athletic Director for all events (i.e., monitoring of events in the District's calendar) in a timely manner. In addition, the Treasurer should be notified when no receipts were collected for an event due to cancellations, insufficient help, etc.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133§ .505
JUNE 30, 2005
(Continued)**

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

**Finding Number 2005-002
(continued)**

Management's Response:

The School District is going to address this issue two fold. First, the Treasurer's office is now obtaining the athletic schedules for all sports programs. The Treasurer's office is comparing the deposits made for athletic events to the athletic schedules. If deposits cannot be located, the Treasurer's office will contact the Athletic Director to determine the disposition of the deposit. Secondly, the Superintendent and Director of Personnel are looking at creating a part-time Athletic Director's position for Watkins Middle School. This position would be responsible for all Middle School sports programs including the collection of Middle School athletic gate receipts. This position would take a tremendous load off of the High School Athletic Director.

Finding Number 2005-003

District's Financial Report

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the District to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The District prepared its financial statements on a modified cash basis of accounting, which is a basis of accounting other than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District may be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its financial statements in accordance with GAAP.

Management's Response:

The School District is looking into having our FY 2006 financial statement prepared in accordance with GAAP.

Finding Number 2005-004

Timely Deposits

Ohio Rev. Code Section 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day. Formal policies have not been adopted by the Board.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133§ .505
JUNE 30, 2005
(Continued)**

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

**Finding Number 2005-004
(continued)**

Timely Deposits (Continued)

Sixty-three percent of athletic gate admission receipts were not deposited in a timely manner. Deposits were held up to six weeks before being deposited with the District's Treasurer and/or financial institution.

We recommend the District develop a written policy for depositing funds. The policy should include procedures to safeguard the assets during the intervening period and for the Treasurer to ensure the policy is followed (i.e., monitoring of events in the District's calendar).

Management's Response:

The School District's depository agreement with our main bank is due to expire in August 2006. The Treasurer's office is looking into various ways to help the school buildings make deposits timelier. One of the areas the School District is exploring is to build into the next depository agreement armored car service. The armored car service will either pick-up the deposits from each building or pick up the deposits from a centralized location on a daily basis. The School District believes this would significantly improve the timeliness of deposits.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2004-001 | Ohio Admin. Code Section 117-2-03(B), failure to prepare financial statements in accordance with GAAP. | No | Not Corrected - Repeated as finding 2005-003. |



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**SOUTHWEST LICKING 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
JUNE 13, 2006**