



**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Licking Heights Local School District
Licking County
6539 Summit Road
Summit Station, Ohio 43073

We have audited the accompanying general-purpose financial statements of the Licking Heights Local School District, Licking County, Ohio (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Licking Heights Local School District, Licking County, Ohio, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

JIM PETRO
Auditor of State

October 24, 2001, except for Footnote 24, as to which the date is November 2, 2001

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LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits:									
Assets:									
Cash and Cash Equivalents	\$1,614,379	\$131,133	\$483,412	\$13,547,637	\$78,333	\$20,145	\$0	\$0	\$15,875,039
Investments	0	0	0	10,229,485	0	0	0	0	10,229,485
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	50,896	0	0	50,896
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	6,914	98,486	0	0	0	0	105,400
Receivables:									
Property Taxes	4,943,502	0	1,822,289	40,527	0	0	0	0	6,806,318
Accounts	8,519	453	0	0	31	0	0	0	9,003
Intergovernmental	14,220	329	0	2,821	0	0	0	0	17,370
Accrued Interest	0	0	0	236,544	0	0	0	0	236,544
Due from Other Funds	151	0	0	0	0	2,530	0	0	2,681
Materials and Supplies Inventory	0	0	0	0	2,463	0	0	0	2,463
Inventory Held for Resale	0	0	0	0	8,164	0	0	0	8,164
Restricted Assets:									
Cash and Cash Equivalents	24,773	0	0	0	0	0	0	0	24,773
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0	34,881	0	13,469,749	0	13,504,630
Other Debits:									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	736,002	736,002
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	25,205,145	25,205,145
Total Assets and Other Debits	\$6,605,544	\$131,915	\$2,312,615	\$24,155,500	\$123,872	\$73,571	\$13,469,749	\$25,941,147	\$72,813,913
Liabilities, Fund Equity and Other Credits:									
Liabilities:									
Accounts Payable	\$30,954	\$3,847	\$0	\$10,332	\$0	\$0	\$0	\$0	\$45,133
Contracts Payable	0	0	0	1,017,170	0	0	0	0	1,017,170
Retainage Payable	0	0	0	199,533	0	0	0	0	199,533
Accrued Salaries and Benefits Payable	693,693	4,143	0	0	19,338	0	0	0	717,174
Intergovernmental Payable	173,463	2,420	992	0	15,057	50,745	0	84,789	327,466
Due to Other Funds	0	2,530	0	0	0	151	0	0	2,681
Due to Students	0	0	0	0	0	22,675	0	0	22,675
Deferred Revenue	4,265,091	0	1,568,707	158,390	5,379	0	0	0	5,997,567
Accrued Interest Payable	0	0	0	5,734	0	0	0	0	5,734
Matured Interest Payable	0	0	6,914	0	0	0	0	0	6,914
Compensated Absences Payable	27,605	0	0	0	9,400	0	0	375,383	412,388
Capital Leases Payable	0	0	0	0	0	0	0	11,525	11,525
Energy Conservation Notes Payable	0	0	0	773,992	0	0	0	70,000	843,992
General Obligation Bonds Payable	0	0	0	0	0	0	0	25,049,450	25,049,450
Rebatable Arbitrage Payable	0	0	0	0	0	0	0	350,000	350,000
Total Liabilities	5,190,806	12,940	1,576,613	2,165,151	49,174	73,571	0	25,941,147	35,009,402
Fund Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	13,469,749	0	13,469,749
Contributed Capital	0	0	0	0	23,336	0	0	0	23,336
Retained Earnings	0	0	0	0	51,362	0	0	0	51,362
Fund Balances:									
Reserved for Encumbrances	215,903	7,654	0	3,392,720	0	0	0	0	3,616,277
Reserved for Bus Purchases	24,773	0	0	0	0	0	0	0	24,773
Reserved for Property Taxes	611,464	0	237,072	0	0	0	0	0	848,536
Unreserved	562,598	111,321	498,930	18,597,629	0	0	0	0	19,770,478
Total Fund Equity and Other Credits	1,414,738	118,975	736,002	21,990,349	74,698	0	13,469,749	0	37,804,511
Total Liabilities, Fund Equity and Other Credits	\$6,605,544	\$131,915	\$2,312,615	\$24,155,500	\$123,872	\$73,571	\$13,469,749	\$25,941,147	\$72,813,913

See accompanying notes to the general purpose financial statements

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Property Taxes	\$4,708,714	\$0	\$1,131,527	\$480	\$5,840,721
Intergovernmental	3,109,853	293,909	96,688	53,918	3,554,368
Interest	560,972	0	0	1,600,288	2,161,260
Tuition and Fees	154,520	0	0	0	154,520
Extracurricular Activities	0	129,448	0	0	129,448
Gifts and Donations	0	7,326	0	0	7,326
Miscellaneous	11,896	63	0	0	11,959
Total Revenues	8,545,955	430,746	1,228,215	1,654,686	11,859,602
Expenditures:					
Current:					
Instruction:					
Regular	3,609,190	79,672	0	3,607	3,692,469
Special	663,887	82,041	0	0	745,928
Vocational	179,499	1,241	0	0	180,740
Other	0	1,600	0	5,000	6,600
Support Services:					
Pupils	377,657	67,128	0	0	444,785
Instructional Staff	320,223	38,021	0	0	358,244
Board of Education	19,843	0	0	0	19,843
Administration	698,505	14,208	0	0	712,713
Fiscal	261,697	0	14,356	0	276,053
Operation and Maintenance of Plant	655,105	205	0	0	655,310
Pupil Transportation	622,608	0	0	281	622,889
Central	27,701	15,017	0	0	42,718
Extracurricular Activities	151,293	128,287	0	0	279,580
Capital Outlay	0	0	0	4,646,525	4,646,525
Debt Service:					
Principal Retirement	6,995	0	24,121,000	0	24,127,995
Interest and Fiscal Charges	3,636	0	1,672,924	5,734	1,682,294
Total Expenditures	7,597,839	427,420	25,808,280	4,661,147	38,494,686
Excess of Revenues Over (Under) Expenditures	948,116	3,326	(24,580,065)	(3,006,461)	(26,635,084)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	263	0	0	0	263
Proceeds from Sale of Bonds	0	0	25,082,472	0	25,082,472
Operating Transfers In	0	0	0	375,000	375,000
Operating Transfers Out	(375,000)	0	0	0	(375,000)
Total Other Financing Sources (Uses)	(374,737)	0	25,082,472	375,000	25,082,735
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	573,379	3,326	502,407	(2,631,461)	(1,552,349)
Fund Balances at Beginning of Year	841,359	115,649	233,595	24,621,810	25,812,413
Fund Balances at End of Year	<u>\$1,414,738</u>	<u>\$118,975</u>	<u>\$736,002</u>	<u>\$21,990,349</u>	<u>\$24,260,064</u>

See accompanying notes to the general purpose financial statements

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$4,396,369	\$4,399,551	\$3,182	\$0	\$0	\$0
Intergovernmental	3,122,901	3,122,901	0	302,114	302,585	471
Interest	550,264	560,935	10,671	0	0	0
Tuition and Fees	140,319	140,741	422	0	0	0
Extracurricular Activities	0	0	0	128,573	128,759	186
Gifts and Donations	0	0	0	3,718	7,326	3,608
Miscellaneous	9,878	10,972	1,094	63	63	0
Total Revenues	8,219,731	8,235,100	15,369	434,468	438,733	4,265
Expenditures:						
Current:						
Instruction:						
Regular	3,606,817	3,505,019	101,798	86,974	80,469	6,505
Special	689,468	646,286	43,182	94,568	84,352	10,216
Vocational	179,812	177,818	1,994	1,717	1,697	20
Other	44,000	42,868	1,132	1,600	1,600	0
Support Services:						
Pupils	400,829	367,315	33,514	69,064	66,711	2,353
Instructional Staff	348,551	310,244	38,307	47,447	39,722	7,725
Board of Education	21,175	19,843	1,332	0	0	0
Administration	757,949	716,667	41,282	18,365	14,637	3,728
Fiscal	305,811	264,145	41,666	0	0	0
Operation and Maintenance of Plant	739,242	680,084	59,158	500	205	295
Pupil Transportation	804,327	757,621	46,706	11,000	0	11,000
Central	31,135	27,701	3,434	15,017	15,017	0
Extracurricular Activities	153,709	146,134	7,575	152,823	129,925	22,898
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	8,082,825	7,661,745	421,080	499,075	434,335	64,740
Excess of Revenues Over (Under) Expenditures	136,906	573,355	436,449	(64,607)	4,398	69,005
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	0	263	263	0	0	0
Proceeds from Sale of Bonds	0	0	0	0	0	0
Proceeds from Sale of Notes	0	0	0	0	0	0
Operating Transfers In	0	0	0	0	0	0
Advances Out	(10,000)	0	10,000	0	0	0
Operating Transfers Out	(379,000)	(375,000)	4,000	0	0	0
Total Other Financing Sources (Uses)	(389,000)	(374,737)	14,263	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(252,094)	198,618	450,712	(64,607)	4,398	69,005
Fund Balances at Beginning of Year	932,677	932,677	0	98,760	98,760	0
Prior Year Encumbrances Appropriated	264,015	264,015	0	16,699	16,699	0
Fund Balances at End of Year	\$944,598	\$1,395,310	\$450,712	\$50,852	\$119,857	\$69,005

See accompanying notes to the general purpose financial statements

(Continued)

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR FISCAL YEAR ENDED JUNE 30, 2001
(Continued)

	Debt Service Fund			Capital Projects Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Property Taxes	\$877,740	\$878,455	\$715	\$0	\$0	\$0	\$5,274,109	\$5,278,006	\$3,897
Intergovernmental	96,688	96,688	0	43,418	53,918	10,500	3,565,121	3,576,092	10,971
Interest	36,154	36,154	0	1,233,583	1,379,397	145,814	1,820,001	1,976,486	156,485
Tuition and Fees	0	0	0	0	0	0	140,319	140,741	422
Extracurricular Activities	0	0	0	0	0	0	128,573	128,759	186
Gifts and Donations	0	0	0	0	0	0	3,718	7,326	3,608
Miscellaneous	0	0	0	0	0	0	9,941	11,035	1,094
Total Revenues	1,010,582	1,011,297	715	1,277,001	1,433,315	156,314	10,941,782	11,118,445	176,663
Expenditures:									
Current:									
Instruction:									
Regular	0	0	0	32,162	31,955	207	3,725,953	3,617,443	108,510
Special	0	0	0	0	0	0	784,036	730,638	53,398
Vocational	0	0	0	0	0	0	181,529	179,515	2,014
Other	0	0	0	5,000	5,000	0	50,600	49,468	1,132
Support Services:									
Pupils	0	0	0	0	0	0	469,893	434,026	35,867
Instructional Staff	0	0	0	0	0	0	395,998	349,966	46,032
Board of Education	0	0	0	0	0	0	21,175	19,843	1,332
Administration	0	0	0	0	0	0	776,314	731,304	45,010
Fiscal	20,700	13,365	7,335	0	0	0	326,511	277,510	49,001
Operation and Maintenance of Plant	0	0	0	0	0	0	739,742	680,289	59,453
Pupil Transportation	0	0	0	281	281	0	815,608	757,902	57,706
Central	0	0	0	18,000	18,000	0	64,152	60,718	3,434
Extracurricular Activities	0	0	0	0	0	0	306,532	276,059	30,473
Capital Outlay	0	0	0	25,378,153	8,228,814	17,149,339	25,378,153	8,228,814	17,149,339
Debt Service:									
Principal Retirement	24,121,000	24,121,000	0	0	0	0	24,121,000	24,121,000	0
Interest and Fiscal Charges	1,710,766	1,710,766	0	0	0	0	1,710,766	1,710,766	0
Total Expenditures	25,852,466	25,845,131	7,335	25,433,596	8,284,050	17,149,546	59,867,962	42,225,261	17,642,701
Excess of Revenues Over (Under) Expenditures	(24,841,884)	(24,833,834)	8,050	(24,156,595)	(6,850,735)	17,305,860	(48,926,180)	(31,106,816)	17,819,364
Other Financing Sources (Uses):									
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0	0	263	263
Proceeds from Sale of Bonds	25,082,472	25,082,472	0	0	0	0	25,082,472	25,082,472	0
Proceeds from Sale of Notes	0	0	0	773,992	773,992	0	773,992	773,992	0
Operating Transfers In	0	0	0	375,000	375,000	0	375,000	375,000	0
Advances Out	0	0	0	0	0	0	(10,000)	0	10,000
Operating Transfers Out	(100,000)	0	100,000	0	0	0	(479,000)	(375,000)	104,000
Total Other Financing Sources (Uses)	24,982,472	25,082,472	100,000	1,148,992	1,148,992	0	25,742,464	25,856,727	114,263
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	140,588	248,638	108,050	(23,007,603)	(5,701,743)	17,305,860	(23,183,716)	(5,250,089)	17,933,627
Fund Balances at Beginning of Year	234,774	234,774	0	23,133,358	23,133,358	0	24,399,569	24,399,569	0
Prior Year Encumbrances Appropriated	0	0	0	1,646,930	1,646,930	0	1,927,644	1,927,644	0
Fund Balances at End of Year	\$375,362	\$483,412	\$108,050	\$1,772,685	\$19,078,545	\$17,305,860	\$3,143,497	\$21,077,124	\$17,933,627

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR FISCAL YEAR ENDING JUNE 30, 2001**

	Enterprise
Revenues:	
Sales	\$316,135
Total Revenues	316,135
Expenses:	
Salaries	136,144
Fringe Benefits	37,954
Purchased Services	8,682
Materials and Supplies	6,397
Cost of Sales	189,647
Depreciation	2,542
Total Expenses	381,366
Operating Loss	(65,231)
Non-Operating Revenues:	
Federal Donated Commodities	19,252
Interest Income	2,655
Federal and State Subsidies	57,838
Total Non-Operating Revenues	79,745
Net Income	14,514
Retained Earnings at Beginning of Year	36,848
Retained Earnings at End of Year	51,362
Contributed Capital at Beginning of Year	1,976
Capital Contributions During the Year	21,360
Contributed Capital at End of Year	23,336
Total Fund Equity at End of Year	\$74,698

See accompanying notes to the general purpose financial statements

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
PROPRIETARY FUND TYPE
FOR FISCAL YEAR ENDING JUNE 30, 2001**

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$316,123	\$316,146	\$23
Interest	2,333	2,655	322
Federal and State Subsidies	55,615	63,687	8,072
Total Revenues	374,071	382,488	8,417
Expenses:			
Salaries	137,267	132,655	4,612
Fringe Benefits	38,226	33,054	5,172
Purchased Services	9,200	8,682	518
Materials and Supplies	197,549	180,973	16,576
Capital Outlay	1,325	485	840
Total Expenses	383,567	355,849	27,718
Excess of Revenues Over (Under) Expenses	(9,496)	26,639	36,135
Operating Transfer-Out	(1,150)	0	1,150
Excess of Revenues Over (Under) Expenses and Transfers Out	(10,646)	26,639	37,285
Fund Equity at Beginning of Year	48,366	48,366	0
Prior Year Encumbrances Appropriated	3,328	3,328	0
Fund Equity at End of Year	\$41,048	\$78,333	\$37,285

See accompanying notes to the general purpose financial statements

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR FISCAL YEAR ENDING JUNE 30, 2001**

	<u>Enterprise</u>
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Sales	\$316,146
Cash Payments for Employee Services and Benefits	(165,709)
Cash Payments to Suppliers for Goods and Services	<u>(190,140)</u>
Net Cash Used for Operating Activities	(39,703)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	63,687
Cash Flows from Investing Activities:	
Interest on Investments	<u>2,655</u>
Net Increase in Cash and Cash Equivalents	26,639
Cash and Cash Equivalents Beginning of Year	<u>51,694</u>
Cash and Cash Equivalents End of Year	<u><u>\$78,333</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(\$65,231)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	2,542
Donated Commodities Used During the Year	19,252
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	11
Increase in Materials and Supplies Inventory	(2,463)
Increase in Inventory Held for Resale	(578)
Decrease in Accounts Payable	(1,625)
Increase in Accrued Salaries and Benefits Payable	3,595
Increase in Intergovernmental Payable	4,900
Decrease in Compensated Absences Payable	<u>(106)</u>
Net Cash Used for Operating Activities	<u><u>(\$39,703)</u></u>

Noncash Capital Financing Activities:

The food service fund received equipment from a capital projects fund with a fair market value of \$21,360.

See accompanying notes to the general purpose financial statements

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**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Licking Heights 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/or federal guidelines.

The School District was established in 1956, and is located just east of the City of Columbus about one-half mile from the Franklin County border. The School District serves an area of approximately 53 square miles. It is located in Licking and Franklin Counties, and covers parts of the City of Pataskala, and Jersey, Lima, St. Albans and Etna Townships in Licking County and the Cities of Reynoldsburg and Columbus, and Jefferson and Truro Townships in Franklin County. The School District is the 395th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 59 classified employees, 98 certificated full-time teaching personnel, and 7 administrative employees who provide services to 1,304 students and other community members. The School District currently operates four instructional buildings, one administrative building, and one garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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 Licking Heights Local 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. The School District has no component units.

The School District is associated with two jointly governed organizations and one insurance purchasing pool. These organizations are the Licking Area Computer Association, the Metropolitan Educational Council, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 20 and 21 to the general purpose financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Licking Heights Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described as follows:

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Governmental Fund Types:

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

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District only proprietary fund type is as follows:

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds only includes agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of year-end.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Licking County Budget Commission for rate determination.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The allocation of appropriations among functions within a fund may be modified during the fiscal year by the Treasurer without Board approval.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, except for some capital project monies used for construction, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to STAR Ohio, repurchase agreements, nonnegotiable certificates of deposit, and federal agency securities.

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

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. 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, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$560,972, which includes \$181,525 assigned from other School District funds.

The School District has a segregated bank account for payroll monies. This interest bearing depository account is presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

The School District has a segregated bank account for the bond and coupon account held separate from the School District's central bank account. This non-interest bearing checking account is presented in the combined balance sheet as "cash and cash equivalents with fiscal and escrow agents" since it is not required to be deposited into the School District treasury. The School District has money held by the City of Pataskala for escrow purposes which are also presented in the "cash and cash equivalents with fiscal and escrow agents" on the combined balance sheet.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

E. Receivables and Payables

Receivables and payables to be recorded on the School District's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also, by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables and collectibility.

F. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

I. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not capitalize infrastructure, as these assets are immovable and of value only to the School District.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fixed Assets and Depreciation (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of ten to twenty years and land improvements have a useful life of ten years.

J. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after fiscal year end are considered not to have used current available financial resources. Bonds, rebatable arbitrage, long-term notes, and capital leases payable are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

M. Fund Balance Reserves

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

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

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1996, the exact amount of contributed capital cannot be determined.

Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

O. Estimates

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36 "Reporting for Certain Shared Nonexchange Revenues". The implementation of the new accounting principles had no effect on fund balance/retained earnings as of June 30, 2000.

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Balances - Budget and Actual (Budget Basis) - Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Proceeds from and principal payments on bonds are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$573,379	\$3,326	\$502,407	(\$2,631,461)
Revenue Accruals	(310,855)	7,987	(253,072)	(44,063)
Cash with Escrow Agent	0	0	0	(46,880)
Increase/Decrease in Fair Value of Investments	0	0	0	(177,308)
Proceeds of Notes	0	0	0	773,992
Expenditure Accruals	179,936	4,361	(697)	996,852
Encumbrances	(243,842)	(11,276)	0	(4,572,875)
Budget Basis	<u>\$198,618</u>	<u>\$4,398</u>	<u>\$248,638</u>	<u>(\$5,701,743)</u>

**Net Income/Excess of Revenues
Over Expenses
Proprietary Fund Type**

	<u>Enterprise</u>
GAAP Basis	\$14,514
Revenue Accrual	5,860
Expense Accrual	6,764
Materials and Supplies Inventory	(2,463)
Inventory Held for Resale	(578)
Depreciation Expense	2,542
Budget Basis	<u>\$26,639</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2001:

	<u>Deficit Fund Balances</u>
<u>Special Revenue Fund:</u>	
Title VI-R	\$359
<u>Capital Projects Fund:</u>	
House Bill 264 Improvements	277,592

The deficit balance in the special revenue fund is the result of the application of generally accepted accounting principles. The deficit in the capital projects fund is the result of the issuance of notes to finance the House Bill 264 improvement projects. The note proceeds are not recognized as "Other Financing Sources" but rather as a fund liability. Once the notes are retired or bonds are issued, the deficit will be eliminated. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

6. DEPOSITS AND INVESTMENTS

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

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

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

Interim 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 pass book accounts.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either the two highest rating classification by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash On Hand: At year end, the School District had \$50 in undeposited cash on hand which is included on the balance sheet of the School District as part of "cash and cash equivalents".

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Cash with Escrow Agents: At year end, the School District had \$46,880 in cash with escrow agents which is included on the balance sheet of the School District as "cash and cash equivalents with fiscal and escrow agents." In accordance with an agreement between the School District and the City of Pataskala, the School District placed escrow monies with the City for future on site construction inspections. The money held by the City is in a pooled account of monies and therefore cannot be classified by risk under GASB Statement 3. To obtain information about the City of Pataskala, write to City of Pataskala 196 East Broad Street, Pataskala, Ohio 43062.

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$3,844,632 and the bank balance was \$4,188,328. Of the bank balance, \$200,000 was covered by federal depository insurance and \$3,988,328 was uninsured and uncollateralized. Although all State 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 Federal Deposit Insurance Corporation.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
STAR Ohio	\$0	\$0	\$16,164,178
Federal Home Loan Bank Notes	4,051,640	0	4,051,640
Federal Farm Credit Bank Notes	1,157,475	0	1,157,475
Federal Home Loan Mortgage Corporation Notes	1,020,370	0	1,020,370
Repurchase Agreements	<u>0</u>	<u>368</u>	<u>368</u>
Total	<u>\$6,229,485</u>	<u>\$368</u>	<u>\$22,394,031</u>

The federal agency securities have maturities ranging from October 2001 to May 2002.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$16,056,108	\$10,229,485
Cash with Escrow Agent	(46,880)	0
Cash on Hand	(50)	0
Investments of the Cash Management Pool:		
Certificates of Deposit	4,000,000	(4,000,000)
Repurchase Agreements	(368)	368
STAR Ohio	(16,164,178)	16,164,178
GASB Statement 3	\$3,844,632	\$22,394,031

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) is for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001 and are collected in 2002 with real property taxes.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true 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.

Tangible personal property taxes 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.

The assessed values upon which fiscal year 2001 taxes were collected are:

	<u>2000 Second- Half Collections</u>		<u>2001 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$157,773,830	86.39%	\$185,496,290	85.76%
Public Utility	8,254,320	4.52	9,054,730	4.18
Tangible Personal Property	<u>16,602,460</u>	<u>9.09</u>	<u>21,750,490</u>	<u>10.06</u>
Total Assessed Value	<u><u>\$182,630,610</u></u>	<u><u>100.00%</u></u>	<u><u>\$216,301,510</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$41.60		\$50.50	

The increase in the tax rate is due to voter approval of an 8.9 mill bond levy on March 7, 2000.

The School District receives property taxes from Licking and Franklin County. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. Also intended to finance current fiscal year operations is the June 30 personal property tax settlement that was not received until July, 2001 in the amount of \$72,982 in the general fund, \$16,510 in the bond retirement debt service fund, and \$480 in the House Bill 264 improvements capital projects fund. The amount available as an advance at June 30, 2001, was \$848,536 and is recognized as revenue. \$611,464 in the general and \$237,072 in the bond retirement debt service fund.

8. RECEIVABLES

Receivables at June 30, 2001, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Tuition Reimbursement	\$13,249
Vocational Reimbursements	971
Total General Fund	14,220
Special Revenue Fund	
State Track Meet Commission	329
Total Special Revenue Fund	329
Capital Projects Fund	
Interactive Video Distance Learning	2,821
Total Capital Projects Fund	2,821
Total Intergovernmental Receivables	\$17,370

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

9. FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2001 follows:

Furniture and Equipment	\$81,882
Land and Improvements	<u>1,150</u>
Total Fixed Assets	83,032
Less Accumulated Depreciation	<u>(48,151)</u>
Net Fixed Assets	<u><u>\$34,881</u></u>

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/01</u>
Land and Improvements	\$418,293	\$0	\$0	\$418,293
Buildings and Improvements	5,571,605	538,685	0	6,110,290
Furniture, Fixtures and Equipment	1,637,388	143,778	12,537	1,768,629
Vehicles	775,075	94,190	0	869,265
Construction in Progress	<u>288,017</u>	<u>4,073,873</u>	<u>58,618</u>	<u>4,303,272</u>
Total General Fixed Assets	<u><u>\$8,690,378</u></u>	<u><u>\$4,850,526</u></u>	<u><u>\$71,155</u></u>	<u><u>\$13,469,749</u></u>

10. RISK MANAGEMENT

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 2001, the School District contracted with Nationwide Insurance for all of the insurances shown below. Coverages provided by Nationwide Insurance are as follows:

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

10. RISK MANAGEMENT (Continued)

<u>Type of Insurance</u>	<u>Amount</u>
Building and Contents-replacement cost (\$1,000 deductible)	\$11,387,000
Boiler and Machinery (\$1,000 deductible)	6,434,400
Extra Expense (\$1,000 deductible)	100,000
Employee Dishonesty	100,000
Forgery or Alteration	100,000
Automobile Liability	1,000,000
Uninsured Motorists (Comprehensive \$100 deductible)	500,000
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000
Musical Equipment (\$250 deductible)	500,000
Camera Equipment (\$250 deductible)	100,000
Electronic Data Processing (\$250 deductible)	564,000
Valuable Papers (\$250 deductible)	100,000
Miscellaneous School Equipment (\$250 deductible)	500,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in insurance coverage from coverage in fiscal 2000.

For fiscal year 2001, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 21). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 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 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund the 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, 2001, 2000, and 1999 were \$52,487, \$53,323 and \$66,851 respectively; 44 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$29,339 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2001, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$385,657, \$209,400 and \$184,464, respectively; 78 percent has been contributed for fiscal year 2001, and 100 percent for fiscal years 2000 and 1999. \$84,344 represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

13. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$182,679 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 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 up to a maximum of 75 percent the premium.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. POSTEMPLOYMENT BENEFITS

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, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent for fiscal year 2001. 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 2001, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$147,113.

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 annual health care expenses. Expenses for health care at June 30, 2000, (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants receiving health care benefits.

14. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 270 days for certified and 250 days for classified. Upon retirement, employees receive a payment for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for certified and 52 days classified employees.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Metropolitan Educational Council.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

14. EMPLOYEE BENEFITS (Continued)

C. Employee Medical Benefits

The School District has contracted with United HealthCare for medical/surgical benefits and Delta Dental Insurance for dental benefits. The employees share the cost of the monthly premium with the Board. For fiscal year 2001, the School District's and the employees' premiums are listed below:

	United HealthCare		Delta Dental	
	Family	Single	Family	Single
Employee Share	\$180.10	\$76.58	\$20.16	\$2.14
Board Share	380.50	131.05	35.96	17.16

15. CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for a vehicle, risographs, and a copier. 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 generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of a vehicle, two risographs, and a copier have been capitalized in the general fixed assets account group in the amount of \$38,046. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2001 totaled \$6,995 in the governmental funds

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001.

Fiscal Year Ending June 30,	GLTOAG
2002	\$7,641
2003	3,784
2004	1,445
2005	782
Total	13,652
Less: Amount Representing Interest	(2,127)
Present Value of Net Minimum Lease Payments	\$11,525

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. NOTES PAYABLE

A summary of the note transactions for the year ended June 30, 2001 follows:

	<u>Outstanding 6/30/00</u>	<u>Additions</u>	<u>Retired</u>	<u>Outstanding 6/30/01</u>
Capital Projects Fund:				
4.16% Energy Conservation Bond				
Anticipation Notes	<u>\$0</u>	<u>\$773,992</u>	<u>\$0</u>	<u>\$773,992</u>

The bond anticipation notes are backed by the full faith and credit of Licking Heights Local School District. The notes mature on April 26, 2002.

17. CONTRACT OBLIGATIONS

As of June 30, 2001, the School District had contractual purchase commitments for seventeen projects. The amount for each contractor is as follows:

<u>Contractor</u>	<u>Fund</u>	<u>Purchase Commitments</u>	<u>Amounts Paid as of 6/30/01</u>	<u>Amounts Remaining on Contracts</u>
Steed Hammond Paul Architects	Building Construction	\$1,110,206	\$838,206	\$272,000
Performance Site Management	Building Construction	2,476,047	1,492,368	983,679
CTL Engineering	Building Construction	19,986	9,790	10,196
Claypool Electric	Building Construction	111,000	12,610	98,390
Gateway Mechanical	Building Construction	117,490	94,250	23,240
Robertson Construction	Building Construction	607,405	400,364	207,041
Roose Company	Building Construction	57,699	41,785	15,914

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. CONTRACT OBLIGATIONS (Continued)

<u>Contractor</u>	<u>Purchase Fund</u>	<u>Amounts Paid Commitments</u>	<u>Amounts Remaining as of 6/30/01</u>	<u>on Contracts</u>
INCA Enterprises	Building Construction	174,800	66,585	108,215
Holdridge Mechanical	Building Construction	70,800	31,906	38,894
Frazier Electric Incorporated	Building Construction	90,675	39,117	51,558
Regency Construction Services	Building Construction	494,510	129,060	365,450
Hamilton Parker	Building Construction	170,563	0	170,563
Capital Aluminum and Glass	Building Construction	263,623	0	263,623
K & W Roofing	Building Construction	34,726	0	34,726
HEAT	Building Construction	835,728	414,512	421,216
Virco Manufacturing Company	Building Construction	24,378	0	24,378
Schorr Associates	Building Construction	<u>228,000</u>	<u>177,840</u>	<u>50,160</u>
Totals		<u>\$6,887,636</u>	<u>\$3,748,393</u>	<u>\$3,139,243</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	<u>Principal Outstanding 6/30/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/01</u>
<u>General Obligation Debt:</u>				
School Bus General Obligation Bonds - 1997	\$73,000	\$0	\$36,000	\$37,000
Energy Conservation Notes - 1993	105,000	0	35,000	70,000
School Improvement Bonds - 2000	950,000	0	0	950,000
School Improvement Notes - 2000	24,050,000	0	24,050,000	0
School Improvement Bonds - 2001				
Serial and Term Bonds	0	23,975,000	0	23,975,000
Capital Appreciation Bonds	0	87,450	0	87,450
Total General Obligation Debt	<u>25,178,000</u>	<u>24,062,450</u>	<u>24,121,000</u>	<u>25,119,450</u>
<u>Other Long Term Obligations:</u>				
Rebatable Arbitrage	0	350,000	0	350,000
Capital Leases	18,520	0	6,995	11,525
Pension Obligation	58,427	84,789	58,427	84,789
Compensated Absences	368,569	131,523	124,709	375,383
Total General Long- Term Obligations	<u>\$25,623,516</u>	<u>\$24,628,762</u>	<u>\$24,311,131</u>	<u>\$25,941,147</u>

In June of 1997, the School District issued \$171,000 in general obligation bonds for the purchase of school buses with an interest rate of 5.28%. The debt is repaid through the bond retirement fund. The total principal and interest payments on the general obligation bonds maturing in fiscal year 2002 is \$38,980, including \$1,980 interest.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

On July 1, 1993, the School District issued \$289,834 in unvoted energy conservation notes with an interest rate of 5.35% for energy conservation improvements under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2003. 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 total principal and interest requirements on the general obligation bonds to maturity, including \$5,618 interest, are as follows:

Year Ending June 30	Energy Conservation Notes
2002	\$38,745
2003	36,873
Total	<u>\$75,618</u>

The School District issued School Improvement General Obligation Bonds in the amount of \$950,000 on May 1, 2000 with an interest rate of 6.4%. The School District also issued bond anticipation notes in the amount of \$24,050,000 on May 11, 2000 with an interest rate of 4.83%. The bond anticipation notes matured on December 21, 2000.

On September 15, 2000, the School District issued \$24,049,032 in voted general obligation bonds to pay off the bond anticipation notes. The School District received \$25,082,472 in bond proceeds, which includes a \$1,033,440 premium. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2028. The liability for the bonds is recorded in the General Long-Term Debt Account Group with annual principal and interest requirements retired from the debt service fund.

The \$950,000 and \$24,049,032 general obligation bonds will be retired with the proceeds of a 8.9 mill levy approved on March 7, 2000. The debt proceeds are used to construct a new high school building with a multi-purpose area for school and community use, renovating and improving existing school buildings and facilities, and acquiring land.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

The capital appreciation bonds will mature December 1, 2013 through 2017. These bonds were purchased at a discount at the time of issuance and, at maturity all compound interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$2,945,000. The fiscal year 2001 accretion amount is \$13,418.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>School Improvement Bonds</u>	<u>School Improvement Bonds</u>	<u>Totals</u>
2002	\$65,640	\$1,771,216	\$1,836,856
2003	65,320	1,893,571	1,958,891
2004	65,000	2,092,321	2,157,321
2005	64,680	2,214,659	2,279,339
2006	64,360	2,338,665	2,403,025
2007-2011	317,000	7,695,754	8,012,754
2012-2016	309,000	6,624,424	6,933,424
2017-2021	301,000	8,963,229	9,264,229
2022-2026	605,520	10,243,031	10,848,551
2027-2029	<u>527,360</u>	<u>6,517,985</u>	<u>7,045,345</u>
Total	<u><u>\$2,384,880</u></u>	<u><u>\$50,354,855</u></u>	<u><u>\$52,739,735</u></u>

The School District's overall legal debt margin was \$25,683,962, with an unvoted debt margin of \$558,161 at June 30, 2001. The School District was approved as a special needs district on February 15, 2000 by the Ohio Department of Education, which allowed them to issue the new school improvement bonds. The tax valuation used to determine the legal debt margin was \$558,160,916.

Arbitrage occurs when the School District profits from the issuance of tax-exempt debt which is issued at a low rate of interest and invests the proceeds in higher yielding taxable securities. Interest earnings in excess of interest expense may have to be repaid to the Federal government. Based upon information provided by the School District's bond counsel, a \$350,000 liability has been reflected in the General Long-Term Account Group.

Capital leases will be paid from the general fund. Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

18. INTERFUND ACTIVITY

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

Due from/Due to Other Funds

	<u>Receivable</u>	<u>Payable</u>
<u>General Fund</u>	<u>\$151</u>	<u>\$0</u>
<u>Special Revenue Fund:</u>		
School Support	<u>0</u>	<u>2,530</u>
<u>Agency Funds:</u>		
Student Managed Activity	2,530	0
Payroll	<u>0</u>	<u>151</u>
Total Agency Funds	<u>2,530</u>	<u>151</u>
Total All Funds	<u><u>\$2,681</u></u>	<u><u>\$2,681</u></u>

19. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Licking Heights Local School District as of and for the fiscal year ended June 30, 2001.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

19. SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$305,648	\$10,487	\$316,135
Depreciation Expense	2,542	0	2,542
Operating Income (Loss)	(67,270)	2,039	(65,231)
Donated Commodities	19,252	0	19,252
Operating Grants	57,838	0	57,838
Net Income	12,475	2,039	14,514
Current Capital Contribution	21,360	0	21,360
Fixed Assets Additions	21,360	0	21,360
Fixed Assets Deletions	6,300	0	6,300
Net Working Capital	36,921	12,296	49,217
Total Assets	111,576	12,296	123,872
Long-Term Liabilities paid from Fund Revenues	9,400	0	9,400
Total Equity	62,402	12,296	74,698

20. 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 thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. Financial statements for LACA can be obtained from their fiscal agent - the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District's membership payment to MEC for fiscal year 2001 was \$522. 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.

21. INSURANCE PURCHASING POOL

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.

22. SET-ASIDE CALCULATIONS AND FUND RESERVES

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 School District was also required to set aside money for budget stabilization. Senate Bill 345, effective April 10, 2001, eliminated the budget stabilization requirement and placed restrictions on the budget stabilization money relating to the worker's compensation refunds. The full amount of the budget stabilization was expended by June 30, 2001 according to State guidelines.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

22. SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2000	(\$67,275)	(\$396,977)	\$34,343	(\$429,909)
Current Year Set-aside Requirement	160,614	160,614	0	321,228
Offset Credit	0	(375,000)	0	(375,000)
Qualifying Disbursements	(290,563)	(3,930,650)	(34,343)	(4,255,556)
Totals	<u>(\$197,224)</u>	<u>(\$4,542,013)</u>	<u>\$0</u>	<u>(\$4,739,237)</u>
Cash Balance Carried Forward to FY 2002	<u>(\$197,224)</u>	<u>(\$4,043,198)</u>	<u>\$0</u>	<u>(\$4,240,422)</u>
Cash Balance Restricted Assets	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

23. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

B. Litigation

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

24. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 13, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Education
Licking Heights Local School District
Licking County
6539 Summit Road
Summit Station, Ohio 43073

We have audited the financial statements of Licking Heights Local School District, Licking County, Ohio (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated October 24, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Licking Heights Local School District
Licking County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and the Licking Heights Local School District Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

October 24, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 13, 2001**