

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2017***

TODD GRIFFITH, TREASURER



Dave Yost • Auditor of State

Board of Education
Licking Heights Local School District
6539 Summit Road SW
Pataskala, Ohio 43062

We have reviewed the *Independent Auditor's Report* of the Licking Heights Local School District, Licking County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

March 11, 2018

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**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Licking Heights Local School District
Licking County
6539 Summit Road SW
Pataskala, Ohio 43062

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Licking Heights Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Licking Heights Local School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Licking Heights Local School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 22 to the financial statements, during the fiscal year ended June 30, 2017, the Licking Heights Local School District restated beginning fund balances. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension liability and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information

Our audit was conducted to opine on the Licking Heights Local School District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our consideration of the Licking Heights Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Licking Heights Local School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.

December 21, 2017

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LICKING HEIGHTS LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (UNAUDITED)

This discussion and analysis of the Licking Heights Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- At fiscal year-end, the School District's Net Position totaled negative \$32.4 million, a \$828,991 decrease in comparison with the prior fiscal year.
- General and Program-specific revenues totaled \$43.1 million and \$4.5 million, respectively.
- The School District had \$48.4 million in expenses. As stated above, only \$4.5 million of these expenses were offset by program revenues. The net expenses of the School District's programs are funded by general revenues, consisting primarily of property taxes and unrestricted grants and entitlements.

Using the Basic Financial Statements

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

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (UNAUDITED)

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the School District only reports governmental activities. Governmental activities are the activities where all of the School District's programs and services are reported including, but not limited to, instruction, support services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Proprietary Fund

The School District utilizes one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for the management of its medical, prescription drug and dental self-insurance activities. Because this service predominantly benefits governmental functions, it has been included within governmental activities in the government-wide financial statements.

Fiduciary Funds

The School District's fiduciary funds are two agency funds used to account for student-managed activities and athletic tournament revenues and expenditures. The School District's fiduciary funds are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in this fund are used for its intended purpose. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 25 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School District, liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by \$32.4 million (negative net position) at the close of the current fiscal year.

The largest portions of the School District's net position are restricted for debt service (\$1.7 million) and permanent improvements (\$774,561).

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LICKING HEIGHTS LOCAL SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

An analysis of fiscal year 2017 in comparison with fiscal year 2016 follows for the Statement of Net Position:

	2017	2016	Change
Current Assets	\$ 40,645,991	\$ 39,822,372	2.07%
Capital Assets	55,971,892	57,647,713	-2.91%
Total Assets	<u>96,617,883</u>	<u>97,470,085</u>	-0.87%
Unamortized Amount on Refunding Pension	1,759,581	2,335,929	-24.67%
Total Deferred Outflows of Resources	<u>18,475,606</u>	<u>11,973,267</u>	54.31%
Current Liabilities	3,485,584	4,797,455	-27.35%
Long-term Liabilities:			
Due Within One Year	3,614,724	4,331,441	-16.55%
Due in More Than One Year:			
Net Pension Liability	58,043,321	44,432,388	30.63%
Other Amounts Due in More Than One Year	61,552,387	65,203,628	-5.60%
Total Liabilities	<u>126,696,016</u>	<u>118,764,912</u>	6.68%
Property and Other Local Taxes Pension	20,845,449	19,725,562	5.68%
Total Deferred Inflows of Resources	<u>20,845,449</u>	<u>22,297,425</u>	-6.51%
Net Investment in Capital Assets	(1,208,302)	(1,191,219)	-1.43%
Restricted	3,355,451	3,539,034	-5.19%
Unrestricted	(34,595,125)	(33,966,800)	-1.85%
Total Net Position	<u>\$ (32,447,976)</u>	<u>\$ (31,618,985)</u>	-2.62%

Current Liabilities decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of decreases in Accounts Payable and Accrued Wages and Benefits Payable.

Long-term Liabilities other than Net Pension Liability decreased significantly in comparison with the prior fiscal year. This decrease is the result of debt principal reduction payments.

Net Pension Liability and related Deferred Outflows of Resources and Deferred Inflows of Resources all changed significantly in comparison with the prior fiscal year. These changes are primarily the result of a change in the actuarial assumptions and the difference between expected and actual investment returns, as reported by the pension systems.

An analysis of fiscal year 2017 in comparison with fiscal year 2016 follows for the Statement of Activities:

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Governmental Activities			
	2017	2016	Percent Change
Program Revenues			
Charges for Services	\$ 1,756,084	\$ 1,711,413	2.61%
Operating Grants and Contributions	2,724,100	2,604,925	4.57%
General Revenues			
Property Taxes	23,587,294	24,425,015	-3.43%
Revenue in Lieu of Taxes	3,015,543	2,530,532	19.17%
Grants and Entitlements not Restricted to Specific Programs	15,412,230	14,347,989	7.42%
Investment Earnings	87,208	35,780	143.73%
Miscellaneous	974,657	610,104	59.75%
Total Revenues	47,557,116	46,265,758	2.79%
Program Expenses			
Instruction	28,579,926	25,842,069	10.59%
Support Services	14,323,391	13,551,327	5.70%
Non-Instructional Services	1,805,708	1,667,650	8.28%
Extracurricular Activities	753,164	696,277	8.17%
Interest and Fiscal Charges	2,923,918	3,294,469	-11.25%
Total Expenses	48,386,107	45,051,792	7.40%
Change in Net Position	(828,991)	1,213,966	
Net Position at Beginning of Year	(31,618,985)	(32,832,951)	
Net Position at End of Year	\$ (32,447,976)	\$ (31,618,985)	

Certain fiscal year 2016 payments in lieu of taxes have been reclassified to correlate with the 2017 classification.

Revenue in Lieu of Taxes increased significantly in comparison with the prior fiscal year. This increase is primarily the result of an increase economic development related property tax incentives. Grants and entitlements also increased significantly. This increase is the result of an increase in Foundation funding from the Ohio Department of Education.

Total Expenses increased significantly in comparison with the prior fiscal year. This increase is primarily the result of an increase in pension expense, as reported by the pensions systems.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the costs of program services and the net cost of those services after taking into account program revenues. General revenues including tax revenue, unrestricted State entitlements and investment earnings must support the net cost of program services.

An analysis of fiscal year 2017 in comparison with fiscal year 2016 follows:

	<u>Total Cost of Services 2017</u>	<u>Total Cost of Services 2016</u>	<u>Net Cost of Services 2017</u>	<u>Net Cost of Services 2016</u>
Program expenses				
Instruction	28,579,926	25,842,069	\$ 26,552,234	\$ 24,008,783
Support Services	14,323,391	13,551,327	14,253,104	13,467,436
Non-Instructional Services	1,805,708	1,667,650	(152,768)	(137,916)
Extracurricular Activities	753,164	696,277	329,435	102,682
Interest and Fiscal Charges	2,923,918	3,294,469	2,923,918	3,294,469
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 48,386,107</u>	<u>\$ 45,051,792</u>	<u>\$ 43,905,923</u>	<u>\$ 40,735,454</u>

Financial Analysis of the School District's Funds

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the School District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$12.3 million, an increase of \$445,272 in comparison with the prior fiscal year. The School District had an unassigned fund balance of \$2.2 million. The remaining fund balance is either not in a spendable form (\$56,231), restricted by external third parties for specific purposes (\$3.5 million) or assigned by the School District for specific purposes (\$6.6 million).

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

An analysis of fiscal year 2017 in comparison with fiscal year 2016 follows:

	<u>Fund Balance</u> <u>June 30, 2017</u>	<u>Restated</u> <u>Fund Balance</u> <u>June 30, 2016</u>	<u>Variance</u>
General Fund	\$ 8,186,389	\$ 7,100,397	\$ 1,085,992
Bond Retirement Fund	1,875,225	1,904,571	(29,346)
Other Governmental Funds	2,270,677	2,882,051	(611,374)
Total Governmental Funds	<u>\$ 12,332,291</u>	<u>\$ 11,887,019</u>	<u>\$ 445,272</u>

General Fund

The General Fund is the chief operating fund of the School District. At the end of current fiscal year, fund balance in the School District's general fund totaled \$8.2 million, an increase of \$1.1 million in comparison with the prior fiscal year. This increase is primarily the result of an increase in Revenue in Lieu of Taxes and Intergovernmental revenue.

Bond Retirement Fund

Fund balance in the Bond Retirement Fund decreased \$29,346 during the fiscal year. This decrease represents the amount in which current year debt service expenditures exceeded property tax and related revenues.

General Fund Budget Information

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

For the General Fund, original budgeted expenditures were increased by \$1.5 million. Final budgeted amounts exceeded the actual revenues and other financing sources by \$107,585, primarily due to overestimating property tax receipts, while actual expenditures and other financing uses exceeded final budgeted amounts by \$698,183, primarily due to conservative budgeting.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (UNAUDITED)

Capital Assets

At the end of the fiscal year, the School District had \$56.0 million (net of accumulated depreciation) invested in capital assets, a decrease of \$1.7 million in comparison with the prior fiscal year. This decrease represents the amount in which current year depreciation (\$1.9 million) exceeded capital acquisitions (\$256,443). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Detailed information regarding capital asset activity is included in the Note 8 to the basic financial statements.

Debt

At the end of the fiscal year, the School District had total bonded debt outstanding of \$55.2 million, a decrease of \$2.6 million in comparison with the prior fiscal year. This decrease represents the amount in which current year principal payments (\$9.2 million) exceeded current year issuances (\$8.5 million) and accretion/amortization (\$1.9 million).

Detailed information regarding long-term obligations is included in Note 14 to the basic financial statements.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Griffith, Treasurer, at Licking Heights Local School District, 6539 Summit Road SW, Pataskala, Ohio 43062.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 12,221,198
Receivables:	
Property Taxes	25,623,388
Revenue in Lieu of Taxes	1,874,701
Intergovernmental	850,466
Interest	7,928
Prepaid Items	56,231
Materials and Supplies Inventory	12,079
Nondepreciable Capital Assets	3,486,518
Depreciable Capital Assets, Net	<u>52,485,374</u>
Total Assets	<u>96,617,883</u>
Deferred Outflows of Resources	
Unamortized Amount on Refunding Pension	1,759,581
	<u>16,716,025</u>
Total Deferred Outflows of Resources	<u>18,475,606</u>
Liabilities	
Accounts Payable	58,442
Accrued Wages and Benefits Payable	2,193,784
Intergovernmental Payable	469,925
Accrued Interest Payable	209,533
Claims Payable	553,900
Long-Term Liabilities	
Due within One Year	3,614,724
Due in More Than One Year:	
Net Pension Liability	58,043,321
Other Amounts Due in More Than One Year	<u>61,552,387</u>
Total Liabilities	<u>126,696,016</u>
Deferred Inflows of Resources	
Property and Other Local Taxes	20,845,449
Total Deferred Inflows of Resources	<u>20,845,449</u>
Net Position	
Net Investment in Capital Assets	(1,208,302)
Restricted for:	
Debt Service	1,740,316
Permanent Improvements	774,561
Food Service	700,501
Special Trust	6,511
Other Local Grants	4,049
Extracurricular Activities	95,344
State and Federal Grants	34,169
Unrestricted	<u>(34,595,125)</u>
Total Net Position	<u>\$ (32,447,976)</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction				
Regular	\$ 21,929,362	\$ 506,437	\$ 34,662	\$ (21,388,263)
Special	6,490,411	173,540	1,253,863	(5,063,008)
Vocational	103,055	2,567	55,083	(45,405)
Other	57,098	1,540	-	(55,558)
Support Services				
Pupils	1,912,894	-	21,694	(1,891,200)
Instructional Staff	753,858	-	-	(753,858)
Board of Education	53,347	-	-	(53,347)
Administration	2,688,081	-	39,593	(2,648,488)
Fiscal	1,037,447	-	-	(1,037,447)
Operation and Maintenance of Plant	4,001,157	-	-	(4,001,157)
Pupil Transportation	3,100,921	-	-	(3,100,921)
Central	775,686	-	9,000	(766,686)
Non-Instructional Services	1,805,708	675,480	1,282,996	152,768
Extracurricular Activities	753,164	396,520	27,209	(329,435)
Interest and Fiscal Charges	2,923,918	-	-	(2,923,918)
Total Governmental Activities	\$ 48,386,107	\$ 1,756,084	\$ 2,724,100	(43,905,923)
General Revenues				
Property Taxes Levied for:				
				18,776,867
				3,927,755
				882,672
				3,015,543
Grants & Entitlements not Restricted				
				15,412,230
				87,208
				974,657
Total General Revenues				43,076,932
Change in Net Position				(828,991)
Net Position Beginning of Year				(31,618,985)
Net Position End of Year				\$ (32,447,976)

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$ 4,813,216	\$ 834,443	\$ 2,739,253	\$ 8,386,912
Receivables:				
Property Taxes	20,259,479	4,407,176	956,733	25,623,388
Revenue in Lieu of Taxes	1,874,701	-	-	1,874,701
Intergovernmental	381,800	-	468,666	850,466
Interest	7,928	-	-	7,928
Interfund	411,641	-	-	411,641
Prepaid Items	51,781	-	4,450	56,231
Materials and Supplies Inventory	-	-	12,079	12,079
Total Assets	<u>\$ 27,800,546</u>	<u>\$ 5,241,619</u>	<u>\$ 4,181,181</u>	<u>\$ 37,223,346</u>
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ 58,442	\$ 58,442
Accrued Wages and Benefits Payable	1,997,519	-	196,265	2,193,784
Intergovernmental Payable	426,040	-	43,885	469,925
Interfund Payable	-	-	411,641	411,641
Matured Compensated Absences	29,987	-	829	30,816
Total Liabilities	<u>2,453,546</u>	<u>-</u>	<u>711,062</u>	<u>3,164,608</u>
Deferred Inflows of Resources:				
Property and Other Local Taxes	16,838,381	3,291,770	715,298	20,845,449
Unavailable Revenue	322,230	74,624	484,144	880,998
Total Deferred Inflows of Resources	<u>17,160,611</u>	<u>3,366,394</u>	<u>1,199,442</u>	<u>21,726,447</u>
Fund Balances:				
Nonspendable:				
Prepaid Items	51,781	-	4,450	56,231
Restricted for:				
Debt Service	-	1,875,225	-	1,875,225
Permanent Improvements	-	-	759,083	759,083
Food Service	-	-	699,175	699,175
Special Trust	-	-	6,511	6,511
Other Local Grants	-	-	4,049	4,049
Extracurricular Activities	-	-	95,344	95,344
State and Federal Grants	-	-	31,185	31,185
Assigned for:				
Public School Support	137,529	-	-	137,529
Future Appropriations	5,158,833	-	-	5,158,833
Support Services	63,773	-	-	63,773
Capital Projects	-	-	1,210,411	1,210,411
Unassigned (Deficit):	2,774,473	-	(539,531)	2,234,942
Total Fund Balances	<u>8,186,389</u>	<u>1,875,225</u>	<u>2,270,677</u>	<u>12,332,291</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 27,800,546</u>	<u>\$ 5,241,619</u>	<u>\$ 4,181,181</u>	<u>\$ 37,223,346</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total Governmental Fund Balances		\$ 12,332,291
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		55,971,892
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
	Delinquent Property Tax Receivables	412,332
	Intergovernmental Receivables	468,666
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		3,280,386
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.		
	Deferred Outflows - Pension	16,716,025
	Net Pension Liability	(58,043,321)
Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
	Bonds Payable	(53,475,584)
	Unamortized Issuance Premiums	(1,756,911)
	Unamortized Losses on Refundings	2,014,824
	Unamortized Gain on Refunding	(255,243)
	Accrued Interest Payable	(209,533)
	Capital Leases Payable	(8,728,225)
	Compensated Absence Payable	(1,175,575)
	Total	<u>(63,586,247)</u>
Net Position of Governmental Activities		<u><u>\$ (32,447,976)</u></u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 18,844,353	\$ 3,928,005	\$ 885,648	\$ 23,658,006
Revenue in Lieu of Taxes	3,015,543	-	-	3,015,543
Intergovernmental	14,510,983	592,925	2,631,291	17,735,199
Investment Earnings	51,837	-	17,277	69,114
Tuition and Fees	684,084	-	-	684,084
Rent	212,784	-	-	212,784
Extracurricular Activities	167,021	-	192,103	359,124
Contributions and Donations	16,590	-	14,770	31,360
Customer Sales and Services	-	-	667,897	667,897
Miscellaneous	776,114	-	22,288	798,402
Total Revenues	38,279,309	4,520,930	4,431,274	47,231,513
Expenditures:				
Instruction:				
Regular	18,583,927	-	184,170	18,768,097
Special	5,109,303	-	1,321,947	6,431,250
Vocational	95,140	-	-	95,140
Other	57,078	-	-	57,078
Support services:				
Pupils	1,787,001	-	24,674	1,811,675
Instructional Staff	709,980	-	-	709,980
Board of Education	52,906	-	-	52,906
Administration	2,427,070	-	42,560	2,469,630
Fiscal	943,331	39,896	12,126	995,353
Operation and Maintenance of Plant	3,553,152	-	407,924	3,961,076
Pupil Transportation	2,744,272	-	-	2,744,272
Central	647,790	-	117,736	765,526
Non-Instructional Services	-	-	1,708,707	1,708,707
Extracurricular Activities	475,336	-	226,660	701,996
Debt service:				
Principal Retirement	-	2,960,000	500,167	3,460,167
Interest and Fiscal Charges	11,330	1,485,380	495,977	1,992,687
Bond Issuance Costs	-	65,000	-	65,000
Total Expenditures	37,197,616	4,550,276	5,042,648	46,790,540
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,081,693	(29,346)	(611,374)	440,973
Other Financing Sources (Uses):				
Sale of Capital Assets	4,299	-	-	4,299
Bond Proceeds	-	8,480,000	-	8,480,000
Payment to Refunding Bond Escrow Agent	-	(8,480,000)	-	(8,480,000)
Total Other Financing Sources (Uses)	4,299	-	-	4,299
Net Change in Fund Balances	1,085,992	(29,346)	(611,374)	445,272
Fund Balances - Beginning of Year, Restated	7,100,397	1,904,571	2,882,051	11,887,019
Fund Balances - End of Year	\$ 8,186,389	\$ 1,875,225	\$ 2,270,677	\$ 12,332,291

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	445,272
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
	Depreciation Expense	(1,932,264)
	Capital Outlay	256,443
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		303,210
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		3,005,319
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(6,965,702)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
	Issuance of Bonds	(8,480,000)
	Bond Principal Repayments	709,235
	Capital Appreciation Bond Accretion Payments	2,250,765
	Capital Lease Principal Repayments	500,167
	Payment to Refunding Bond Escrow Agent	8,480,000
	Amortization of Bond Issuance Premiums	666,485
	Amortization of Losses on Refundings	(238,338)
	Amortization of Gain on Refunding	21,189
Some expenses reported in the statement of activities, such as compensated absences payable and other accounts payable, do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
	Compensated Absences	134,329
	Accrued Interest	19,135
	Accretion of Capital Appreciation Bonds	(1,334,702)
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		1,330,466
Change in Net Position of Governmental Activities	\$	(828,991)

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Revenues:				
Property Taxes	\$ 19,106,322	\$ 19,106,322	\$ 19,052,160	\$ (54,162)
Revenue in Lieu of Taxes	2,986,942	2,986,942	2,978,475	(8,467)
Intergovernmental	14,464,567	14,464,567	14,423,564	(41,003)
Investment Earnings	44,034	44,034	43,909	(125)
Tuition and Fees	397,112	397,112	395,986	(1,126)
Rent	213,389	213,389	212,784	(605)
Extracurricular Activities	74,240	74,240	74,030	(210)
Miscellaneous	661,596	661,596	659,721	(1,875)
Total Revenues	37,948,202	37,948,202	37,840,629	(107,573)
Expenditures:				
Instruction:				
Regular	19,020,757	19,120,757	18,985,584	135,173
Special	5,002,638	5,202,638	5,126,152	76,486
Vocational	100,666	110,666	99,353	11,313
Other	50,000	70,000	58,391	11,609
Support services:				
Pupils	1,802,298	1,852,298	1,826,810	25,488
Instructional Staff	751,291	801,291	771,604	29,687
Board of Education	50,000	60,000	52,948	7,052
Administration	2,306,090	2,606,090	2,488,416	117,674
Fiscal	852,293	1,002,293	948,272	54,021
Operation and Maintenance of Plant	3,540,172	3,740,172	3,662,837	77,335
Pupil Transportation	2,801,651	2,851,651	2,824,373	27,278
Central	602,859	702,859	657,056	45,803
Extracurricular Activities	300,000	395,000	362,765	32,235
Debt service:				
Principal Retirement	1,000,000	1,095,000	1,095,000	-
Interest and Fiscal Charges	-	55,000	11,330	43,670
Total Expenditures	38,180,715	39,665,715	38,970,891	694,824
Excess of Expenditures Over Revenues	(232,513)	(1,717,513)	(1,130,262)	587,251
Other Financing Sources (Uses):				
Sale of Capital Assets	4,311	4,311	4,299	(12)
Advances In	47,487	47,487	47,487	-
Advances Out	(400,000)	(415,000)	(411,641)	3,359
Total Other Financing Sources (Uses)	(348,202)	(363,202)	(359,855)	3,347
Net Change in Fund Balance	(580,715)	(2,080,715)	(1,490,117)	590,598
Fund Balances at Beginning of Year	6,021,316	6,021,316	6,021,316	-
Prior Year Encumbrances Appropriated	80,715	80,715	80,715	-
Fund Balances at End of Year	\$ 5,521,316	\$ 4,021,316	\$ 4,611,914	\$ 590,598

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUND
AS OF JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Assets:	
Equity in Pooled Cash and Investments	\$ 3,834,286
Total Assets	<u>3,834,286</u>
Liabilities:	
Claims Payable	553,900
Unearned Revenue	436,579
Total Liabilities	<u>990,479</u>
Net Position:	
Unrestricted	2,843,807
Total Net Position	<u><u>\$ 2,843,807</u></u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for Services	\$ 5,336,373
Total Operating Revenues	5,336,373
Operating Expenses:	
Purchased Services	723,490
Claims	3,287,120
Total Operating Expenses	4,010,610
Operating Income	1,325,763
Non-Operating Revenues:	
Interest Revenue	18,094
Total Non-Operating Revenues	18,094
Change in Net Position	1,343,857
Net Position Beginning of Year	1,499,950
Net Position End of Year	\$ 2,843,807

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,322,982
Cash payments for purchased services	(723,490)
Cash payments for claims	(3,442,020)
Net cash provided by operating activities	1,157,472
Cash flows from investing activities:	
Cash received from interest	18,094
Net cash provided by investing activities	18,094
Net increase in cash and investments	1,175,566
Cash and investments at beginning of year	2,658,720
Cash and investments at end of year	\$ 3,834,286
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,325,763
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Claims payable	(154,900)
Unearned revenue	(13,391)
Net cash provided by operating activities	\$ 1,157,472

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF JUNE 30, 2017

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Investments	\$ 88,756
Total Assets	<u>88,756</u>
Liabilities	
Due to Students	88,756
Total Liabilities	<u>\$ 88,756</u>

See accompanying notes to the basic financial statements.

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LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 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 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 36 square miles. It is located in Licking and Franklin Counties and covers parts of the City of Pataskala, Jersey Township, St. Albans Township and Etna Township in Licking County and parts of Jefferson Township, the City of Reynoldsburg, City of New Albany and the City of Columbus in Franklin County. It is staffed by 192 classified employees and 278 certificated teaching personnel who provide services to 4,209 students and other community members. The School District currently operates five instructional buildings, one administrative building, and a bus garage.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District 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 participates in several organizations which are defined as jointly governed organizations. These organizations are the Licking Area Computer Association, the Metropolitan Educational Technology Association and the School Study Council of Ohio. These organizations are presented in Note 16 to the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America 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 more significant of the School District’s accounting policies are described below.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements normally distinguish between those activities that are governmental and those that are considered business-type activities. The internal service fund operating activities are eliminated to avoid overstatement of revenues and expenditures.

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

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Bond Retirement Fund – The Bond Retirement Fund accounts for the accumulation of property tax revenues for, and payment of, general obligation bonds used for the construction and renovation of buildings within the School District.

Other Governmental Funds of the School District account for specific revenue sources that are restricted or assigned for specified purposes other than debt service.

Proprietary Funds

Internal Service Fund – The Internal Service Fund accounts for money received from other funds as payment for providing medical insurance. Payments are made to a third party administrator for claims payments, claims administration and stop-loss coverage.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the School District's internal service fund are charges for sales and services. Operating expenses for internal service fund includes the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore cannot be used to support the School District's own programs. Fiduciary funds include pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The School District has two fiduciary funds, an agency fund which accounts for student activities and an agency fund which accounts for revenues and expenditures related to athletic tournaments.

C. Measurement Focus

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or 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 fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, revenue in lieu of taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 nonexchange transactions must also be available before it can be recognized.

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

For the School District, deferred inflows of resources include property taxes, revenue in lieu of taxes and unavailable revenue. Property taxes and revenue in lieu of taxes both represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental funds balance sheet. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the availability period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental revenue, and fee revenue. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget is waived by the Licking County Budget Commission (Budget Commission) under the authority of Section 5705.281 of the Revised Code. The Budget Commission accepts the School District's five year forecast in place of the tax budget. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

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

F. Cash and Investments

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

During fiscal year 2017, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), money market accounts, federal securities, negotiable certificates of deposit, and commercial paper. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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, Internal Service Fund and Other Governmental Funds during fiscal year 2017 amounted to \$51,837, \$18,094 and \$17,277, respectively.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The portion of interest revenue credited to the General Fund that was earned on cash balances within other funds was insignificant.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as Equity in Pooled Cash and Investments. Investments with an original maturity greater than three months at the time they are purchased are presented on the financial statements as Investments.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of purchased food held for resale and expendable supplies held for consumption. Donated commodities are presented at their entitlement value.

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of \$2,500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	10 – 30
Buildings and Improvements	15 – 45
Furniture, Fixtures and Equipment	5 – 20
Vehicles	5 – 20

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payables”. These amounts are eliminated in the governmental activities column of the Statement of Net Position.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 vesting method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The School District records a liability for all employees meeting the retirement criteria outlined by the pension systems as well as all employees with 10 or more years of service with the School District.

The entire sick leave benefit liability is reported on the government-wide financial statements. On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences" in the funds from which these payments will be made.

The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy.

K. Bond Premiums/Issuance Costs/Accretion

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond issuance costs are expensed as incurred. Capital appreciation bonds are accreted each fiscal year for the interest accrued during the fiscal year. Bond premiums and the interest on capital appreciation bonds are presented as an addition to the face amount of the bonds payable.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the period in which the bonds are issued. Accretion on the capital appreciation bonds is not reported.

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Pensions

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

N. Fund Balance

In accordance with Governmental Accounting Standards Board Statements No. 54, Fund Balance Reporting, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories may be used:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – Fund balance is reported as committed when there are resources constrained for specific purposes that are internally imposed by formal action (resolution) of the government at the highest level of decision making authority, Board of Education.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The School District applies restricted resources first when disbursements are incurred for purposes for which both restricted and unrestricted (assigned and unassigned) fund balance is available. Similarly, within unrestricted fund balance, assigned amounts are reduced first followed by the unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The School District considers assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

O. Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated of the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

P. Net Position

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

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

Q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of District management and that are either unusual in nature or infrequent in occurrence. During the fiscal year, the School District did not incur any transactions that would be classified as an extraordinary item or special item.

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as an assignment of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. With the implementation of GASB Statement No. 54, *Fund Balance Reporting*, the School District's Public School Support Fund, no longer meets the special revenue fund type criteria for reporting in the fiscal year-end external financial statements. As such, this fund is presented as part of the School District's General Fund in the year-end financial statements. The budgetary comparison information in the fiscal year-end financial statements is the legally adopted budget for the general fund, without modification for the funds no longer meeting the special revenue criteria.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ 1,085,992
Adjustments:	
Public School Support Fund	(14,307)
Revenue Accruals	(306,408)
Expenditure Accruals	(1,827,467)
Other Financing Sources/Uses, Net	(364,154)
Encumbrances	(63,773)
Budget Basis	<u>\$ (1,490,117)</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk - In the case of deposits, this is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$7,249,292, and the bank balance was \$7,725,929. Of the School District's bank balance, \$5,415,756 was covered by federal deposit insurance while the remaining \$2,310,173 was exposed to custodial credit risk. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

Investments - At fiscal year-end, the School District had the following investments:

Investment Type	Standard and Poor's Rating	Fair Value	Percent of Total	Investment Maturities		
				Within 1 Year	1 to 2 Years	2 to 4 Years
Money Market Funds	N/A	53,051	1.05%	53,051	-	-
Federal Home Loan Mortgage	AA+	398,440	7.89%	-	199,238	199,202
Federal National Mortgage Assoc	AA+	200,008	3.96%	-	-	200,008
Federal Home Loan Banks	AA+	297,057	5.88%	-	-	297,057
Negotiable Certificates of Deposit	N/A	2,991,479	59.21%	2,000,000	-	991,479
Commercial Paper	A-1	1,112,141	22.01%	1,112,141	-	-
Total		<u>\$ 5,052,176</u>	<u>100%</u>	<u>\$3,165,192</u>	<u>\$ 199,238</u>	<u>\$ 1,687,746</u>

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the School District's investments reported at fair value are valued using quoted market prices (Level 2 inputs) except money market funds which are Level 1 inputs.

In addition, at fiscal year-end, the School District reported an investment in STAR Ohio totaling \$8,486. In accordance with GASB Statement No. 79, the School District's investment in STAR Ohio is reported at amortized cost. For the fiscal year ended June 30, 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. STAROhio carries a rating of AAAM by Standard and Poor's.

Interest Rate Risk - The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, unless matched to a specific obligation or debt of the School District. The Treasurer cannot make investments which he does not reasonably believe can be held until the maturity date.

Credit Risk - The School District's investment policy limits investments to those authorized by State statute. The School District has no investment policy that addresses credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issuer except for commercial paper and bankers' acceptances.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 5 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in calendar year 2017 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2017 (other than public utility property tax) represents the collection of calendar year 2017 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected.

Tangible personal property taxes received from telephone companies in calendar year 2017 were levied after October 1, 2016, on the value as of December 31, 2016. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Licking and Franklin Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2017, are available to finance fiscal year 2017 operations. The amounts available to be advanced can vary based on the date the tax bills are sent.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 – PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2017 taxes were collected are:

	<u>2016 Second Half Collections</u>		<u>2017 First Half Collections</u>	
	Amount	Percent	Amount	Percent
Real Estate	\$ 499,241,150	95.39%	\$ 504,982,146	94.46%
Public Utility Personal	24,149,180	4.61%	29,616,670	5.54%
Total	<u>\$ 523,390,330</u>	<u>100.00%</u>	<u>\$ 534,598,816</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 59.59		\$ 60.89	

NOTE 6 – TAX ABATEMENTS

Under Community Reinvestment Area (CRA) and other property tax abatements entered into by the City of Reynoldsburg, City of New Albany, and the City of Pataskala, the School District’s property tax revenues were reduced by \$165,519, \$1,563,882, and \$241, respectively, during the fiscal year. Compensation payments received from the cities during the fiscal year totaled \$1,312,061.

NOTE 7 – RECEIVABLES

At fiscal year-end, receivables consisted of property taxes, revenue in lieu of taxes, intergovernmental grants, interest, and interfund. All receivables are considered collectible in full and will be received within one year with the exception of property taxes and revenue in lieu of taxes. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Revenue in lieu of taxes will be received over the designated period established by the agreements.

A summary of the principal items of intergovernmental receivables follows:

<u>Description</u>	<u>Amount</u>
Improving Teacher Quality	\$ 9,315
Title III Limited English Proficiency	57,453
Title VI-B IDEA	166,063
Title I Disadvantaged Children	232,851
School Psych Intern	2,984
Tuition Reimbursement	288,098
BWC Refund	93,702
Total Intergovernmental Receivables	<u>\$ 850,466</u>

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 7 – RECEIVABLES (continued)

Revenue in Lieu of Taxes

The School District receives revenue in lieu of taxes from a Tax Increment Financing Agreement entered into with the City of Columbus for the purpose of constructing single, multifamily and senior housing facilities. The School District is to receive payments equal to the amount that the School District could otherwise receive as real property tax payments derived from the improvements, absent the passage of the agreement. The agreement will expire no later than fiscal year 2033.

The School District also receives revenue in lieu of taxes from a revenue sharing agreement with the City of Reynoldsburg. Licking County and the City of Columbus entered into an enterprise zone agreement to allow several businesses a tax exemption on tangible personal property taxes. The School District is to receive 50 percent of income tax revenue collected by the City of Reynoldsburg on new jobs created by the enterprise zone. This agreement will expire during fiscal year 2020.

The School District also receives revenue in lieu of taxes from a revenue sharing agreement with the City of New Albany whereas the City of New Albany has declared improvements to certain parcels of real property within the City, 100 percent exempt from property taxes. The School District is to receive 50 percent of income tax revenue collected by the City of New Albany on new jobs created by the exempt parcels, not to exceed the amount the School District could have received as real property tax payments derived from the improvements had the exemption not been declared.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 8 – CAPITAL ASSETS

Capital assets activity for the fiscal year was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 3,418,147	\$ -	\$ -	\$ 3,418,147
Construction in Progress	-	68,371	-	68,371
Total Nondepreciable Assets	3,418,147	68,371	-	3,486,518
Depreciable Capital Assets				
Land Improvements	1,067,674	64,835	-	1,132,509
Buildings and Improvements	72,590,324	-	-	72,590,324
Furniture, Fixtures and Equipment	2,001,926	13,273	-	2,015,199
Vehicles	4,894,981	109,964	-	5,004,945
Total Depreciable Assets	80,554,905	188,072	-	80,742,977
Less accumulated depreciation				
Land Improvements	(519,061)	(82,624)	-	(601,685)
Buildings and Improvements	(20,885,494)	(1,575,352)	-	(22,460,846)
Furniture, Fixtures and Equipment	(1,586,019)	(80,791)	-	(1,666,810)
Vehicles	(3,334,765)	(193,497)	-	(3,528,262)
Total accumulated depreciation	(26,325,339)	(1,932,264)	-	(28,257,603)
Depreciable Capital Assets, Net of accumulated depreciation	54,229,566	(1,744,192)	-	52,485,374
Total Capital Assets, Net	\$ 57,647,713	\$ (1,675,821)	\$ -	\$ 55,971,892
Instruction Regular	\$ 1,565,332			
Instructional Staff	11,581			
Administration	7,767			
Operations and Maintenance	96,637			
Pupil Transportation	209,947			
Central	1,709			
Food Services	21,574			
Extracurricular Activities	17,717			
Total Depreciation Expense	\$ 1,932,264			

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 9 – RISK MANAGEMENT

A. Property and Liability - The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the School District contracted with Argonaut Insurance Company for building and contents and fleet insurance. Insurance coverage provided includes the following:

Building and Contents replacement cost (\$2,500 deductible)	\$77,920,680
General Liability (per Occurrence)	\$1,000,000
Annual Aggregate	\$3,000,000
Personal and Advertising Injury Aggregate	\$1,000,000
Automobile Liability (\$500 deductible)	\$1,000,000
Uninsured Motorists (\$500 deductible)	\$1,000,000
Medical Payments	\$5,000
Educators Legal Liability (Each Wrongful Act \$2,500 deductible)	\$1,000,000
Annual Aggregate	\$3,000,000
Employment Practices Liability (Each Wrongful Act \$2,500 deductible)	\$1,000,000
Annual Aggregate	\$3,000,000
Back Wages Limit (\$10,000 deductible)	\$50,000
Commercial Excess Liability (Each Occurrence)	\$5,000,000
Annual Aggregate	\$5,000,000

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

B. Employee Medical, Prescription Drug and Dental Self-Insurance - The School District maintains an internal service “self-insurance” medical, prescription drug and dental insurance fund in connection with formalized risk management programs in an effort to minimize risk exposure and control claims and premium costs. The School District, effective January 1, 2015, contracted with Medical Mutual to be the third party administrator for the medical and prescription drug insurance programs. Effective January 1, 2016, the School District contracted with Delta Dental to be the third party administrator for the dental insurance program.

A claims liability of \$553,900 at fiscal year-end in the self-insurance internal service fund reflects an estimate of incurred but unpaid claims liability. This liability was estimated by a third party based on claims experience. The School District has purchased stop loss coverage for individual employee claim amounts exceeding \$125,000. Unpaid claims at year-end are recorded as current claims payable because they would be due within 60 days from the end of the fiscal year.

A summary of the changes in the self-insurance claims liability for fiscal years 2017 and 2016 are as follows:

	Fiscal Year 2017	Fiscal Year 2016
Claims Liability at July 1	\$ 708,800	\$ 663,500
Incurred Claims	3,287,120	4,124,424
Claims Paid	(3,442,020)	(4,079,124)
Claims Liability at June 30	<u>\$ 553,900</u>	<u>\$ 708,800</u>

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NOTE 9 – RISK MANAGEMENT (continued)

C. Workers' Compensation - The School District pays its workers' compensation premium to the State based on its individual rate provided by Bureau of Workers Compensation. The School District has contracted with Comp Management to provide third party administration services and managed care services.

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent and nothing was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$730,879 for fiscal year 2017. Of this amount \$120,103 is reported as an intergovernmental payable.

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$2,274,440 for fiscal year 2017. Of this amount, \$233,016 is reported as an intergovernmental payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability - 2017	\$11,353,909	\$46,689,412	\$58,043,321
Proportion of the Net Pension Liability - 2017	0.155128%	0.13948374%	
Proportion of the Net Pension Liability - 2016	<u>0.140954%</u>	<u>0.13166884%</u>	
Change in Proportionate Share	0.014174%	0.00781490%	
Pension Expense	\$1,747,553	\$5,218,149	\$6,965,702

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

At June 30, 2017, the School District reported deferred outflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$153,138	\$1,886,477	\$2,039,615
Differences between projected and actual investment earnings	936,533	3,876,476	4,813,009
Changes in assumptions	757,936	-	757,936
Changes in proportionate share	826,132	5,274,014	6,100,146
District contributions subsequent to the measurement date	<u>730,879</u>	<u>2,274,440</u>	<u>3,005,319</u>
Total Deferred Outflows of Resources	<u>\$3,404,618</u>	<u>\$13,311,407</u>	<u>\$16,716,025</u>

\$3,005,319 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$785,730	\$2,863,860	\$3,649,590
2019	796,842	3,247,469	4,044,311
2020	821,952	2,893,752	3,715,704
2021	<u>269,215</u>	<u>2,031,886</u>	<u>2,301,101</u>
Total	<u>\$2,673,739</u>	<u>\$11,036,967</u>	<u>\$13,710,706</u>

Actuarial Assumptions - SERS

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

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$15,031,868	\$11,353,909	\$8,275,304

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$62,046,435	\$46,689,412	\$33,734,858

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumptions changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District’s net pension liability is expected to be significant.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2017 three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

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NOTE 11 – POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

The Ohio Revised Code provides the statutory authority to fund SERS’ postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District’s contributions assigned to health care, including the surcharge, for the years ended June 30, 2017, 2016, and 2015 were \$89,303, \$79,732, and \$102,360, respectively. The entire amount has been contributed for fiscal years 2016 and 2015. For fiscal year 2017, the entire amount is reported as an intergovernmental payable.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS’ Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS’ website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014 and 2013. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School District's required contributions to STRS for health care for the years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively.

NOTE 12 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, sick leave and personal leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn 10 to 20 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.

All employees earn sick leave at the rate of one and one-fourth days per month. For part-time employees, each day of accumulation is a pro-rated day equal to the number of hours employed. Sick leave may be accumulated up to 320 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum payment of 80 days for all certificated and classified employees. All employees earn additional bonus severance days based upon years of service. Certified employees earn one to five days and classified employees earn one to six days.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through American United. Vision insurance is offered by the School District, but the employees pay the total premium.

C. Deferred Compensation

School District employees may participate in a deferred compensation plan. The School District maintains a list of the various companies that have been approved by the Board. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 – LEASES – LESSEE DISCLOSURE

The School District has entered into capitalized leases for buses. Each lease meets the criteria of a capital lease, 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 basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The buses acquired by the leases were initially capitalized in the amount of \$871,823, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Position for governmental activities. Principal payments during the fiscal year of \$120,167 were paid from the Permanent Improvement Fund. At fiscal year-end the buses have accumulated depreciation of \$382,985 for a net book value of \$488,838.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Principal	Interest	Total
2018	123,533	8,615	132,148
2019	126,994	5,154	132,148
2020	67,698	1,594	69,292
Total	<u>\$ 318,225</u>	<u>\$ 15,363</u>	<u>\$ 333,588</u>

On September 1, 2010, the School District entered into a ground lease agreement with Licking Heights Alumni Association, Inc. (Association) whereas the District leases a parcel of land to the Association, and subsequently constructs school facilities on the land, and the Association, in turn, subleases the land, and leases the constructed school facilities to the School District through June 30, 2017, with an option to renew annually through December 1, 2035. It is the School District’s intent to renew annually. See Note 14 for further disclosure.

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NOTE 14 – LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2017 were as follows:

General Obligation Bonds:	Amounts Outstanding			Amounts Outstanding 6/30/17	Amounts Due Within One Year
	6/30/16	Additions	Deductions		
2000 School Improvement Bonds- 6.4%	\$ 875,000	\$ -	\$ (5,000)	\$ 870,000	5,000
2000A School Improvement Bonds- 4.3% to 6.0%					
Capital Appreciation Bonds (CABS)	25,175	-	(13,487)	11,688	11,688
Accretion on CABS	1,092,798	217,975	(661,513)	649,260	649,260
2005 School Improvement Advance Refunding Bonds - 3.5% to 5.0%					
Capital Appreciation Bonds (CABS)	174,994	-	(15,421)	159,573	13,293
Accretion on CABS	720,600	136,758	(69,579)	787,779	65,627
Unamortized Premium	203,838	-	(67,946)	135,892	-
2006 Advance Refunding Bonds					
Serial Bonds - 3.55% to 4.1%	3,130,000	-	(3,130,000)	-	-
Term Bonds - 4.0%	5,350,000	-	(5,350,000)	-	-
Capital Appreciation Bonds (CABS)	26,515	-	(26,515)	-	-
Accretion on CABS	937,724	200,761	(1,138,485)	-	-
Unamortized Premium	381,649	-	(381,649)	-	-
2007 Advance Refunding Bonds					
Serial Bonds- 4.0% to 4.25%	7,310,000	-	-	7,310,000	-
Term Bonds- 4.0% to 4.1%	1,545,000	-	(75,000)	1,470,000	75,000
Capital Appreciation Bonds (CABS)	49,998	-	-	49,998	-
Accretion on CABS	392,185	127,761	-	519,946	-
Unamortized Premium	324,655	-	(26,502)	298,153	-
2011 Advance Refunding Bonds					
Serial Bonds - 2.0% to 2.5%	7,140,000	-	(200,000)	6,940,000	-
Capital Appreciation Bonds (CABS)	425,000	-	-	425,000	425,000
Accretion on CABS	800,011	179,819	-	979,830	979,830
Unamortized Premium - CABS	223,868	-	(149,246)	74,622	-
Unamortized Premium - Serial Bonds	85,849	-	(15,609)	70,240	-
2012 Advance Refunding Bonds					
Serial Bonds - 2.0% to 3.1%	7,665,000	-	-	7,665,000	-
Capital Appreciation Bonds (CABS)	327,212	-	(118,812)	208,400	89,100
Accretion on CABS	1,168,416	224,853	(381,188)	1,012,081	371,720
Unamortized Premium - CABS	417,800	-	(193,275)	224,525	-
Unamortized Premium - Serial Bonds	36,528	-	(2,214)	34,314	-

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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

General Obligation Bonds:	Amounts Outstanding 6/30/16	Additions	Deductions	Amounts Outstanding 6/30/17	Amounts Due Within One Year
2013 Advance Refunding Bonds					
Serial Bonds - 0.4% to 3.6%	14,590,000	-	(255,000)	14,335,000	255,000
Capital Appreciation Bonds (CABS)	529,980	-	-	529,980	-
Accretion on CABS	825,274	246,775	-	1,072,049	-
Unamortized Premium - CABS	1,100,170	-	(183,751)	916,419	-
2016 Refunding Bonds					
Term Bonds - 1.73%	-	8,480,000	-	8,480,000	70,000
General Obligation Bonds Payable	<u>57,875,239</u>	<u>9,814,702</u>	<u>(12,460,192)</u>	<u>55,229,749</u>	<u>3,010,518</u>
Net Pension Liability:					
SERS	8,042,972	3,310,937	-	11,353,909	-
STRS	36,389,416	10,299,996	-	46,689,412	-
Total Net Pension Liability	<u>44,432,388</u>	<u>13,610,933</u>	<u>-</u>	<u>58,043,321</u>	<u>-</u>
2013 Tax Anticipation Notes - 1.38%	1,095,000	-	(1,095,000)	-	-
2010A Certificates of Participation					
Certificates	770,000	-	(380,000)	390,000	390,000
Unamortized Premium	8,238	-	(5,492)	2,746	-
2010B Certificates of Participation (QSCB)					
Certificates	4,000,000	-	-	4,000,000	-
2010C Certificates of Participation					
Certificates	4,020,000	-	-	4,020,000	-
Other Capital Leases	438,392	-	(120,167)	318,225	123,533
Compensated Absences	1,328,200	295,424	(417,233)	1,206,391	90,673
Total Long-Term Obligations	<u>\$ 113,967,457</u>	<u>\$ 23,721,059</u>	<u>\$ (14,478,084)</u>	<u>\$ 123,210,432</u>	<u>\$ 3,614,724</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

2000 School Improvement Bonds

The School District issued School Improvement General Obligation Bonds in the amount of \$950,000 on May 1, 2000. The bonds were issued for a 28 year period with final maturity at December 1, 2028.

2000A School Improvement Bonds

On September 15, 2000, the School District issued \$24,049,032 in voted general obligation bonds. The bond issue included serial, term and capital appreciation bonds, in the amounts of \$11,825,000, \$12,150,000, and \$74,032, respectively. The School District received \$25,082,472 in bond proceeds. The bonds were issued for a 28 year period with final maturity at December 31, 2028. The debt proceeds were used to construct a new high school building with a multi-purpose area for school and community use, renovating and improving existing school buildings and facilities, and acquiring land. On June 1, 2005, \$4,950,000 of the serial bonds and \$12,150,000 of the term bonds were advance refunded.

The capital appreciation bonds were issued for \$74,032. The capital appreciation bonds will mature in fiscal year 2018 as follows:

<u>Fiscal Year</u>	<u>Maturity Amount</u>
2018	745,000

2005 School Improvement Advance Refunding Bonds

On June 1, 2005, the School District issued \$17,099,994 of general obligation bonds. The bond issue included serial, term and capital appreciation bonds, in the amounts of \$14,815,000, \$2,110,000, and \$174,994, respectively. The bonds refunded \$17,100,000 of outstanding 2000 School Improvement Bonds. The bonds were issued for a 23 year period with final maturity at December 1, 2028.

The term bonds, issued at \$2,110,000, that mature on December 1, 2028, were refunded with Series 2013 on May 16, 2013. The serial bonds issued at \$14,815,000, and with final maturity dates after June 1, 2015, are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the School District and by lot within maturity, at the option of the Board of Education on or after June 1, 2015 at the redemption price of 100 percent. \$13,610,000 of the serial bonds were refunded with Series 2013 on May 16, 2013.

The capital appreciation bonds, issued at \$174,994, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2018 and 2019 as follows:

<u>Fiscal Year</u>	<u>Maturity Amount</u>
2018	85,000
2019	1,085,000

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

2006 Advance Refunding Bonds

On November 1, 2006, the School District issued \$9,184,993 of general obligation bonds. The bond issue included serial, term and capital appreciation bonds, in the amounts of \$3,805,000, \$5,350,000, and \$29,993, respectively. The bonds refunded \$9,185,000 of outstanding 2004 School Improvement Bonds. The bonds were issued for an 18 year period with final maturity at December 1, 2024.

The term bonds issued at \$5,350,000, that mature on December 1, 2024, and the serial bonds issued at \$3,805,000, with final maturity on December 1, 2022, were refunded with Series 2016 on October 27, 2016. The capital appreciation bonds, issued at \$29,993, are not subject to prior redemption. The capital appreciation bonds matured on December 1, 2016. The 2006 Advance Refunding Bonds were repaid in full by the issuance of the 2016 refunding bonds described on page 62.

2007 Advanced Refunding Bonds

On October 11, 2007, the School District issued \$9,379,998 in general obligation bonds for the purpose of refunding \$9,380,000 of the 2004 School Improvement Bonds. The bond issue included serial, term and capital appreciation bonds, in the amounts of \$7,645,000, \$1,685,000, and \$49,998, respectively. The bonds were issued for a 22 year period, with final maturity in December 2028. The bonds were refunded subsequent to fiscal year end as described in Note 21.

The term bonds were issued at \$1,685,000. \$370,000 of the term bonds that mature on December 1, 2018, are subject to mandatory sinking fund redemption on December 1, 2018, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemptions according to the following schedule:

Fiscal Year	Principal Amount to be Redeemed
2018	75,000
2019	80,000

The \$1,315,000 term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption on December 1, 2025, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to date of redemption according to the following schedule:

Fiscal Year	Principal Amount to be Redeemed
2021	\$ 30,000
2022	30,000
2023	145,000
2024	35,000
2025	35,000
2026	1,040,000

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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

The serial bonds issued at \$7,645,000 and with final maturity dates after December 1, 2016 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the School District and by lot within maturity, at the option of the Board of Education on or after December 1, 2016 at the redemption price of 100 percent.

The capital appreciation bonds, issued at \$49,998, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2020 in the amount of \$1,075,000.

2010 Certificates of Participation

On September 22, 2010, the School District issued \$2,210,000 in certificates of participation, Series 2010A, elected to be treated as tax-exempt serial bonds, for the purpose of school facilities construction in the Ohio School Facilities Commission program. The maturity date for the certificates is December 1, 2017 with interest costs increasing each year from 2.0 to 2.75 percent.

On September 22, 2010, the School District issued \$4,000,000 in certificates of participation, Series 2010B, elected to be treated as Federal Taxable Qualified School Construction Bonds, for the purpose of school facilities construction in the Ohio School Facilities Commission program. The maturity date for the certificates is September 1, 2027 with interest costs of 5.55 percent.

On September 22, 2010, the School District issued \$4,020,000 in certificates of participation, Series 2010C, elected to be treated as Federal Taxable Build America Bonds, for the purpose of school facilities construction in the Ohio School Facilities Commission program. The maturity date for the certificates is December 1, 2035 with interest costs from 6.0 to 6.5 percent.

The Certificates of Participation evidence a proportionate interest in the base rent to be paid by the School District under the ground lease agreement. Base rent payments will be recorded as expenditures in the permanent improvement fund (an other governmental fund).

The following is a summary of future base rent payments for the certificates of participation:

Fiscal Year	Principal	Interest	Total
2018	\$ 390,000	\$ 362,883	\$ 752,883
2019	400,000	468,520	868,520
2020	400,000	468,520	868,520
2021	400,000	468,520	868,520
2022	400,000	468,520	868,520
2023-2027	2,000,000	2,342,600	4,342,600
2028-2032	2,255,000	1,126,510	3,381,510
2033-2036	2,165,000	275,900	2,440,900
Total	<u>\$ 8,410,000</u>	<u>\$ 5,981,973</u>	<u>\$ 14,391,973</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

2011 Advanced Refunding Bonds

On December 22, 2011, the School District issued \$7,820,000 in general obligation bonds for the purpose of refunding \$7,820,000 of the 2004 School Improvement Bonds. The bond issue included serial and capital appreciation bonds, in the amounts of \$7,395,000 and \$425,000, respectively. The bonds were issued for a 10 year period, with final maturity in December 2021.

The serial bonds and capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2018 in the amount of \$1,495,000.

2012 Advanced Refunding Bonds

On March 6, 2012, the School District issued \$8,502,212 in general obligation bonds for the purpose of refunding \$8,505,000 of the 2005 School Construction Current Refunding Bonds. The bond issue included serial and capital appreciation bonds, in the amounts of \$8,175,000 and \$327,212, respectively. The bonds were issued for a 20 year period, with final maturity in December 2032.

The serial bonds issued at \$8,175,000 and with final maturity dates after December 1, 2021 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the School District and by lot within maturity, at the option of the Board of Education on or after December 1, 2021 at the redemption price of 100 percent.

The capital appreciation bonds, issued at \$327,212, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2018 through 2020 as follows:

<u>Fiscal Year</u>	<u>Maturity Amount</u>
2018	495,000
2019	495,000
2020	500,000

2013 Advanced Refunding Bonds

On May 16, 2013, the School District issued \$15,719,980 in general obligation bonds for the purpose of refunding \$15,720,000 of the 2005 School Improvement Advance Refunding Bonds. The bond issue included serial and capital appreciation bonds, in the amounts of \$15,190,000 and \$529,980, respectively. The bonds were issued for a 15 year period, with final maturity in December 2028.

The serial bonds issued at \$15,190,000 and with final maturity dates after December 1, 2029 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the School District and by lot within maturity, at the option of the Board of Education on or after December 1, 2028 at the redemption price of 100 percent.

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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

The capital appreciation bonds, issued at \$529,980, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2019 through 2020 as follows:

<u>Fiscal Year</u>	<u>Maturity Amount</u>
2019	\$ 1,330,000
2020	1,390,000

2013 Tax Anticipation Notes

On June 21, 2013, the School District issued \$4,300,000 in tax anticipation notes in anticipation of the collection of proceeds of the \$4,400,000 emergency levy approved by electors of the School District at the election held May 7, 2013. The Notes were repaid in full by the General Fund, as of June 1, 2017.

2016 Refunding Bonds

On October 27, 2016, the School District issued \$8,480,000 in general obligation term bonds for the purpose of refunding \$8,480,000 of the 2006 Advance Refunding Bonds. The bonds were issued for an 8 year period and mature on December 1, 2024.

The term bonds are subject to mandatory sinking fund redemption on December 1, 2017, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2018	\$ 70,000
2019	90,000
2020	85,000
2021	90,000
2022	90,000
2023-2025	8,055,000

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NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire the School District’s outstanding debt at June 30, 2017, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial Bonds		Term Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	260,000	1,160,283	145,000	204,714	2,605,518	214,482
2019	1,895,000	1,140,183	170,000	200,229	2,100,056	809,944
2020	980,000	1,101,812	85,000	197,116	1,700,010	1,264,990
2021	2,880,000	1,047,029	120,000	194,987	-	-
2022	4,850,000	952,227	120,000	192,200	-	-
2023-2027	13,780,000	3,616,327	9,310,000	333,937	-	-
2028-2032	11,790,000	676,095	-	-	-	-
2033	685,000	10,618	-	-	-	-
Total	<u>\$ 37,120,000</u>	<u>\$ 9,704,574</u>	<u>\$ 9,950,000</u>	<u>\$ 1,323,183</u>	<u>\$ 6,405,584</u>	<u>\$ 2,289,416</u>

All general obligation bonds will be retired from the Bond Retirement Fund with property tax revenues.

The School District pays obligations related to employee compensation from the fund benefiting from their service, including the general fund, food service fund and state and federal grant funds.

Legal Debt Margin

The Ohio Revised Code provides that voted general obligation debt of the School District shall never exceed 9% of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the School District. The assessed valuation used in determining the School District’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the School District’s legal debt margin calculation excluded tangible person property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2017, resulted in a voted debt margin of \$1,534,479 and an unvoted debt margin of \$534,599

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NOTE 15 – INTERFUND ACTIVITY

At fiscal year-end, the General Fund had unpaid interfund cash advances in the amount of \$411,641, which represents short-term loans made to other funds of the School District. These loans are expected to be repaid within one year.

Unpaid interfund cash advances at fiscal year-end are as follows:

Other Governmental Fund Name	Amount
Title VI-B IDEA	\$ 157,534
Title III Limited English Proficiency	59,139
Title I Disadvantaged Children	182,921
Improving Teacher Quality	12,047
	\$ 411,641

NOTE 16 – 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 of public school districts within the boundaries of Licking and Muskingum Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendent from all participating districts. The School District paid \$175,097 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, Ohio 43055.

B. Metropolitan Educational Technology Association - The School District participates in the Metropolitan Educational Technology Association (META). META is composed of over 200 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 37 counties in Central Ohio. The META helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of META 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 and one representative from each county outside of Franklin County. Each year, the participating school districts pay a membership fee to META to cover the costs of administering the program. The School District paid \$2,335 to META for membership during fiscal year 2017. Financial information may be obtained from the Metropolitan Educational Technology Association, David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, OH 43302.

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NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (continued)

C. School Study Council of Ohio - The School Study Council of Ohio (the “Council”) is a jointly governed organization operated by a Board of Trustees (the “Board”) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and participate in Council discussions, but are not entitled to vote. The Board is annually elected from within the Council’s active membership. The Board consisted of 14 members. The School District did not make any payments to the Council during fiscal year 2017. Financial information may be obtained from the School Study Council of Ohio, at 2080 Citygate Drive, Columbus, OH 43219.

NOTE 17 – SET-ASIDE CALCULATIONS

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 an equal amount for the acquisition and construction of capital improvements.

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

	Capital Acquisition
Set-aside cash balance as of June 30, 2016	\$ -
Current fiscal year set-aside requirement	699,334
Current fiscal year offsets	(893,614)
Set-aside Reserve Balance as of June 30, 2017	\$ (194,280)
Required Set-aside Balances Carried Forward to FY 2018	\$ -

Capital acquisition current year offsets presented in the table were limited to those necessary to reduce the fiscal year-end balance to zero. Although the School District had current year offsets during the fiscal year that would have reduced the set-aside amount for capital acquisitions to below zero, this extra amount may not be used to reduce the set-aside requirements of future fiscal years, therefore the School District has chosen not to present them.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 18 – 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, 2017.

B. Litigation

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

C. Foundation Funding

District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

NOTE 19 – ACCOUNTABILITY

Fund balances at fiscal year-end included the following individual deficits:

Other Governmental Funds	Deficit Fund Balances
IDEA-B	\$ (204,213)
Title III	(65,694)
Title I	(250,789)
Title II-A	(15,711)

The GAAP basis deficit balances in the Other Governmental Funds are a result of the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 20 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School District has implemented the following:

GASB Statement No. 77 “Tax Abatement Disclosures” improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government’s ability to raise resources in the future, by reporting (1) the government’s own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The implementation of this statement did not have a significant effect on the financial statements of the School District. See note 6.

GASB Statement No. 78 “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans” amended the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School District.

GASB Statement No. 79 “Certain External Investment Pools and Pool Participants” establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have a significant effect on the financial statements of the School District.

GASB Statement No. 80 “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14” amended the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School District.

GASB Statement No. 82 “Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73” addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement did not have an effect on the financial statements of the School District.

NOTE 21 – SUBSEQUENT EVENTS

On September 21, 2017, the School District issued \$42,565,000 of general obligation bonds, Series 2017A. The bond issue included serial and term bonds, in the amounts of \$12,115,000 and \$30,450,000, respectively. The bonds were issued for the purpose of constructing and renovating school facilities under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission; furnishing and equipping the same; improving the sites thereof; and acquiring land and interest in land. The bonds were issued for a 37 year period with final maturity at October 1, 2054.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 21 – SUBSEQUENT EVENTS (continued)

On September 21, 2017, the School District issued \$8,035,000 of general obligation bonds, Series 2017B. The bond issue included serial and term bonds, in the amounts of \$5,870,000 and \$2,165,000, respectively. The bonds were issued for the purpose of constructing and renovating school facilities under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission; furnishing and equipping the same; improving the sites thereof; and acquiring land and interest in land. The bonds were issued for a 20 year period with final maturity at October 1, 2037.

On September 21, 2017, the School District issued \$5,000,000 of general obligation serial bonds, Series 2017C. The bonds were issued for the purpose of currently refunding a portion of the School District’s \$9,379,998 Advance Refunding Bonds, Series 2007, dated October 11, 2007. The bonds were issued for an 11 year period with final maturity at October 1, 2028.

The District has been authorized by the Ohio Superintendent of Public Instruction to exceed its overall legal debt limitation for the cost of locally funded initiatives in relation to the ongoing Ohio Facilities Construction Commission Project.

On October 19, 2017, the School District executed an agreement with the Ohio Facilities Construction Commission for the construction and renovation of school facilities under the Expedited Local Partnership Program. The Master Plan for the project, including construction previously performed, includes building two new Elementary Schools and a new High School, as well as demolition, abatement of hazardous material, additions and renovations to existing Schools. The total project cost is budgeted at \$94,413,559. Of this amount, \$20,770,983 is to be funded by the State of Ohio and \$73,642,576 is to be funded by the School District.

NOTE 22 – RESTATEMENT FUND BALANCE

In previous fiscal years, the School District paid Permanent Improvement Fund (an other governmental fund) debt service expenditures from the Bond Retirement Fund in error. The correction of this error had the following effect on beginning Fund Balance:

	Bond Retirement Fund	Other Governmental Funds
Fund Balance, June 30, 2016	\$ 1,452,592	\$ 3,334,030
Correction of Error	451,979	(451,979)
Restated Fund Balance, July 1, 2016	\$ 1,904,571	\$ 2,882,051

REQUIRED SUPPLEMENTARY INFORMATION

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Proportion of the Net Pension Liability	0.155128%	0.140954%	0.133555%	0.133555%
School District's Proportionate Share of the Net Pension Liability	\$ 11,353,909	\$ 8,042,972	\$ 6,759,143	\$ 7,942,088
School District's Covered Payroll	\$ 4,838,121	\$ 4,273,692	\$ 3,902,864	\$ 3,863,238
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	234.68%	188.20%	173.18%	205.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Proportion of the Net Pension Liability	0.13948374%	0.13166884%	0.12378332%	0.123783%
School District's Proportionate Share of the Net Pension Liability	\$ 46,689,412	\$ 36,389,416	\$ 30,108,387	\$ 30,494,855
School District's Covered Payroll	\$ 15,339,830	\$ 14,224,836	\$ 14,363,069	\$ 12,212,484
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	304.37%	255.82%	209.62%	249.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contributor	\$ 730,879	\$ 677,337	\$ 563,273	\$ 540,937	\$ 534,672	\$ 562,629	\$ 504,110	\$ 499,154	\$ 323,100	\$ 359,113
Contributions in relation to the contractually required contributor	<u>(730,879)</u>	<u>(677,337)</u>	<u>(563,273)</u>	<u>(540,937)</u>	<u>(534,672)</u>	<u>(562,629)</u>	<u>(504,110)</u>	<u>(499,154)</u>	<u>(323,100)</u>	<u>(359,113)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,220,567	\$ 4,838,121	\$ 4,273,692	\$ 3,902,864	\$ 3,863,238	\$ 4,183,113	\$ 4,010,422	\$ 3,686,514	\$ 3,283,537	\$ 3,656,955
Contributions as a percentage of covered payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contributor	\$ 2,274,440	\$ 2,147,576	\$ 1,991,477	\$ 1,867,199	\$ 1,587,623	\$ 1,651,494	\$ 1,607,164	\$ 1,495,773	\$ 1,393,724	\$ 1,238,345
Contributions in relation to the contractually required contributor	<u>(2,274,440)</u>	<u>(2,147,576)</u>	<u>(1,991,477)</u>	<u>(1,867,199)</u>	<u>(1,587,623)</u>	<u>(1,651,494)</u>	<u>(1,607,164)</u>	<u>(1,495,773)</u>	<u>(1,393,724)</u>	<u>(1,238,345)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 16,245,998	\$ 15,339,830	\$ 14,224,836	\$ 14,363,069	\$ 12,212,484	\$ 12,703,800	\$ 12,362,800	\$ 11,505,946	\$ 10,720,954	\$ 9,525,731
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions used in this calculation.

SUPPLEMENTARY INFORMATION

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Child Nutrition Cluster:			
(D) (E) School Breakfast Program	10.553	2017	\$ 357,941
(D) (E) National School Lunch Program	10.555	2017	754,247
(C) (D) National School Lunch Program - Food Donation	10.555	2017	154,032
Total National School Lunch Program			908,279
Total U.S. Department of Agriculture and Child Nutrition Cluster			1,266,220
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2016	104,821
Title I Grants to Local Educational Agencies	84.010	2017	602,757
Total Title I Grants to Local Educational Agencies			707,578
Special Education Cluster:			
(F) Special Education_Grants to States	84.027	2015	6,248
(F) Special Education_Grants to States	84.027	2016	75,212
(F) Special Education_Grants to States	84.027	2017	543,830
Total Special Education_Grants to States and Special Education Cluster			625,290
English Language Acquisition State Grants	84.365	2016	10,044
English Language Acquisition State Grants	84.365	2017	57,452
Total English Language Acquisition State Grants			67,496
Improving Teacher Quality State Grants	84.367	2016	6,353
Improving Teacher Quality State Grants	84.367	2017	36,349
Total Improving Teacher Quality State Grants			42,702
Total U.S. Department of Education			1,443,066
Total Federal Financial Assistance			\$ 2,709,286

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2017.
- (B) This schedule includes the federal award activity of the Licking Heights Local School District under programs of the federal government for the fiscal year ended June 30, 2017 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Licking Heights Local School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Licking Heights Local School District.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Special Education Cluster" in determining major programs.
- (G) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The District has not elected to use the 10% de minimis indirect cost rate.



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

Licking Heights Local School District
Licking County
6539 Summit Road SW
Pataskala, Ohio 43062

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Licking Heights Local School District's basic financial statements and have issued our report thereon dated December 21, 2017, wherein we noted, as described in Note 22, the Licking Heights Local School District restated beginning fund balances.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Licking Heights Local School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Licking Heights Local School District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Licking Heights Local School Districts financial statements. We consider finding 2017-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2017-002 described in the accompanying schedule of findings to be a significant deficiency.

Board of Education
Licking Heights Local School District

Compliance and Other Matters

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

Licking Heights Local School District's Response to Findings

The Licking Heights Local School District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Licking Heights Local School District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Licking Heights Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Licking Heights Local School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
December 21, 2017



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Compliance With Requirements Applicable to the Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Licking Heights Local School District
Licking County
6539 Summit Road SW
Pataskala, Ohio 43062

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Licking Heights Local School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Licking Heights Local School District's major federal program for the fiscal year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Licking Heights Local School District's major federal program.

Management's Responsibility

The Licking Heights Local School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Licking Heights Local School District's compliance for the Licking Heights Local School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Licking Heights Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Education
Licking Heights Local School District

Opinion on the Major Federal Program

In our opinion, the Licking Heights Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2017.

Report on Internal Control Over Compliance

The Licking Heights Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Licking Heights Local School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Licking Heights Local School District's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
December 21, 2017

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Child Nutrition Cluster
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

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

Finding Number	2017-001
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Material Weakness - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and other stakeholders with objective and timely information to enable well-informed decisions.

Adjustments were made to the financial statements and note disclosures for the fiscal year ended June 30, 2017, to properly account for property taxes and the prior period restatement of fund balances. The audited financial statements and District's records have been adjusted for the material misstatements identified during the audit.

In general, an accounting and information system should be designed to provide management with accurate and timely information to enable well-informed business decisions to be made. The present system lacks fiscal oversight and approvals and fails to meet the above expectations.

We recommend the District further consult with their auditors, the Auditor of State and/or further consult with an accounting firm to help ensure accurate financial reporting.

Finding Number	2017-002
----------------	----------

Significant Deficiency - Payroll Controls

Proper controls over the payroll process help ensure that pay runs contain no discrepancies, whether due to fraud or error.

For each hourly employee, stretch paid over the working year, the Board approved an hourly wage only. We were unable to locate approved documentation regarding the employees' regular working schedule. We were able to verify accurate pay by multiplying the Board approved rate by the regular working hours per documentation maintained and dividing this over the number of pays within the working year.

Without proper controls over payroll, discrepancies, whether due to fraud or error, could occur. In addition, employees and the public could lose confidence in the payroll office to properly manage District finances.

We recommend the District implement additional controls over the payroll process. Such controls should include obtaining Board approval on regular working hours and rate of pay. To help ensure accuracy, the approved hours and rate should be included in the employees' annual salary notices.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

Licking Heights Local School District

Philip H. Wagner, Ph.D., Superintendent
 Todd Griffith, Treasurer
 6539 Summit Road S.W.
 Pataskala, OH 43062

Administrative Office
 Office # (740) 927-6926
 Fax # (740) 927-9043

BOARD OFFICERS

Richard Wand, President
 Tracy Russ, Vice President

BOARD MEMBERS

Brian Bagley
 Paul Johnson
 Nicole Roth

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The District employed a new treasurer during the fiscal year. The Treasurer reviewed and strengthened many internal controls to ensure financial reporting accuracy in the future.	June 30, 2017	Todd Griffith, Treasurer
2017-002	The District has new payroll software and a new payroll staff. We will begin Board approval on regular work hours and included approved work hours on annual salary notices.	January 1, 2018	Kim Henderson, HR Director

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR § 200.511(b)
JUNE 30, 2017**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2016-001 2016-002	2016	<u>Significant Deficiency - Payroll Controls - Proper</u> controls over the payroll process help ensure that payrolls contain no errors, whether due to fraud or error. We noted three payroll overpayments, to three separate individuals in the amount of \$100, \$116 and \$57.	No	Partially Corrected - No Overpayments noted in 2017, see finding 2017-002.



Dave Yost • Auditor of State

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
MARCH 22, 2018