

LICKING VALLEY LOCAL SCHOOL DISTRICT

LICKING COUNTY

SINGLE AUDIT

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Licking Valley Local School District

We have reviewed the Independent Auditor's Report of the Licking Valley Local School District, Licking County, prepared by Wilson, Shannon & Snow, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 3, 2005

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Licking Valley Local School District

June 30, 2004

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Board of Education
Licking Valley Local School District
1379 Licking Valley Road
Newark, Ohio 43055

Independent Auditors' Report

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

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

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

Wilson, Shannon & Sons, Inc.

Newark, Ohio
December 15, 2004

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$363,354.

General revenues accounted for \$15,987,771, or 89% of all revenues. Program specific revenues in the form of operating grants and contributions, and charges for services and sales accounted for \$1,965,192 or 11% of total revenues of \$17,952,963.

The District's major funds included the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. The General Fund had \$15,044,390 in revenues and other financing sources and \$15,162,215 in expenditures and other financing uses. The General Fund balance decreased \$117,825 from the prior fiscal year. The Bond Retirement Fund had \$1,131,062 in revenues and \$1,080,968 in expenditures. The Bond Retirement Fund balance increased \$50,094 from the prior fiscal year. The Permanent Improvement Fund had \$31,332 in revenues and no expenditures. The Permanent Improvement Fund balance increased \$31,332 from the prior fiscal year.

The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

The revenue generated from the Permanent Improvement Fund is used to pay for the capital improvement projects.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund, Bond Retirement Fund, and the Permanent Improvement Fund are the only major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The General Fund is the District's most significant major governmental fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – The District's only fiduciary fund is for Student Managed activities. The District's fiduciary activities are reported on the Statement of Fiduciary Assets and Liabilities. We exclude these activities from the District's other financial statements because assets cannot be utilized by the District to finance operations.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis of fiscal year 2004 to 2003 follows:

**Table 1
Net Assets
Governmental Activities**

	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$11,791,132	\$13,306,000
Capital Assets, Net	18,788,874	19,509,000
Total Assets	<u>30,580,006</u>	<u>32,815,000</u>
<u>Liabilities:</u>		
Current and Other Liabilities	5,919,191	7,424,000
Long-Term Liabilities	15,667,247	16,034,000
Total Liabilities	<u>21,586,438</u>	<u>23,458,000</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,860,953	4,234,000
Restricted	4,800,865	4,646,000
Unrestricted	331,750	477,000
Total	<u>\$8,993,568</u>	<u>\$9,357,000</u>

Total assets decreased \$2,234,994. The decrease in capital assets was \$720,126. The decrease in current and other assets is a result of corresponding decreases in property tax revenue and/or grants or entitlements.

Total liabilities decreased \$1,871,562. Deferred revenue decreased \$1,830,374. The decrease is a result of the application of the definition of taxes that have been "levied" as of fiscal year end. Only taxes that have been levied and will be used to finance fiscal year 2005 operations have been recorded as deferred revenue.

The significant changes in the long-term liabilities are a result of a \$415,000 payment on the School Improvement Bond and net additions of \$67,977 to capital leases.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004. A comparative analysis of fiscal year 2004 to 2003 follows:

Table 2		
Change in Net Assets		
Governmental Activities		
	2004	2003
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$1,216,056	\$1,177,000
Operating Grants, Contributions and Interest	672,166	1,287,000
Capital Grants and Contributions	76,970	-
Total Program Revenues	1,965,192	2,464,000
General Revenues:		
Property Taxes	4,757,867	4,405,000
Income Taxes	1,541,935	2,135,000
Grants and Entitlements	9,455,013	8,717,000
Interest	75,567	117,000
Miscellaneous	157,389	597,000
Total General Revenues	15,987,771	15,971,000
Total Revenues	17,952,963	18,435,000
<u>Expenses:</u>		
Instruction	9,230,789	8,755,000
Support Services:		
Pupils	416,652	439,000
Instructional Staff	785,488	875,000
Board of Education	810,983	572,000
Administration	1,758,649	1,565,000
Fiscal	481,681	439,000
Business	2,463	49,000
Operation and Maintenance of Plant	1,758,469	1,654,000
Pupil Transportation	1,144,584	1,072,000
Central	48,442	44,000
Non-Instructional	736,782	670,000
Extracurricular Activities	475,367	471,000
Capital Outlay	-	126,000
Interest and Fiscal Charges	665,968	681,000
Total Expenses	18,316,317	17,412,000
Increase in Net Assets	(\$363,354)	\$1,023,000

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

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

Our school district, which is dependent on property taxes and income taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 27 percent of revenues for governmental activities for the Licking Valley Local School District in fiscal year 2004. Income taxes made up approximately 9 percent of revenues for governmental activities for the Licking Valley Local School District in fiscal year 2004.

Over the past several years the District has experienced a significant amount of growth. The District is located in Licking County, and includes all of the Village of Hanover, and portions of Mary Ann, Harrison, Perry, and Hanover Townships. The total assessed values upon which taxes are collected increased by \$3,004,096 from fiscal year 2003 to fiscal year 2004.

Instruction comprises approximately 50 percent of governmental program expenses and support services make up approximately 39 percent of the program expenses of the District.

Operating grants, contributions and interest decreased \$615,059. This decrease is due to a direct decrease in restricted grants from fiscal year 2003 to fiscal year 2004. Tax revenue increased \$352,867 due to an increase in assessed values.

Regular instruction and administration expenses increased \$669,438. This increase is due to additional staffing. Steps and negotiated salary increases also contributed to the increases from fiscal year 2003 to fiscal year 2004.

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. A comparative analysis of fiscal year 2004 to 2003 follows:

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Instruction	\$9,230,789	\$8,153,984	\$8,755,000	\$7,299,000
Support Services:				
Pupils	416,652	416,652	439,000	438,000
Instructional Staff	785,488	785,488	875,000	867,000
Board of Education	810,983	810,983	572,000	572,000
Administration	1,758,649	1,647,877	1,565,000	1,444,000
Fiscal	481,681	481,681	439,000	439,000
Business	2,463	2,463	49,000	49,000
Operation and Maintenance of Plant	1,758,469	1,758,469	1,654,000	1,654,000
Pupil Transportation	1,144,584	1,144,584	1,072,000	1,072,000
Central	48,442	40,472	44,000	35,000
Non-Instructional	736,782	298,412	670,000	103,000
Extracurricular Activities	475,367	144,092	471,000	169,000
Capital Outlay			126,000	126,000
Interest and Fiscal Charges	665,968	665,968	681,000	681,000
Total Expenses	<u>\$18,316,317</u>	<u>\$16,351,125</u>	<u>\$17,412,000</u>	<u>\$14,948,000</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 88 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 89 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$18,130,284 and expenditures of \$18,145,979. The net negative change of \$15,695 in fund balance for the year indicates that the District had difficulty in meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Final expenditures were budgeted at \$15,333,464 while actual expenditures were \$15,279,346. The \$54,118 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year. Actual General Fund revenues were more than expenditures by \$21,267. During fiscal year 2004, interest revenue decreased significantly due to the declining economy. Open enrollment dollars were also recorded as gross receipts for incoming students and expenditures for outgoing students.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$18,788,784 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets see Note 8 to the basic financial statements.

Debt

At June 30, 2004, the District had \$14,580,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-seven year period, with final maturity on December 1, 2025. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$1,286,942, with an un-voted debt margin of \$176,299.

For further information regarding the District's debt see Note 13 to the basic financial statements.

Economic Factors

The District is holding its own in the state of a declining economy and uncertainty in State funding. The District is a small rural community of 6,500 people in Eastern and Northeastern Licking County, Ohio. It has a number of small businesses with agriculture being an important part of the economy.

Over the past several years, the District has remained in a good financial position. In 1988, the District passed a 7.5 mill-continuing levy. This levy provides a continuous source of funds for the financial operations and stability of the district.

The District also passed a 1.0% Continuous Income Tax levy for operating in 1993 and returned 5 mills of the 1988 levy back to the taxpayers. This generates approximately \$1,500,000 additional revenue to be used for operational expenses of the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jo Lynn Torbert, Treasurer, Licking Valley Local School District, 1379 Licking Valley Road NE, Newark, Ohio 43055.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Statement of Net Assets
June 30, 2004**

		<u>Governmental Activities</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$	6,141,297
Materials and Supplies Inventory		11,791
Accrued Interest Receivable		898
Accounts Receivable		14,404
Intergovernmental Receivable		39,458
Prepaid Items		50,615
Taxes Receivable		4,906,483
Income Taxes Receivable		626,186
Non-Depreciable Capital Assets		61,282
Depreciable Capital Assets, net		<u>18,727,592</u>
Total Assets		<u><u>30,580,006</u></u>
LIABILITIES:		
Accounts Payable		99,266
Accrued Wages and Benefits		1,281,794
Intergovernmental Payable		418,673
Matured Severance Payable		182,235
Deferred Revenue		3,937,223
Long-Term Liabilities:		
Due Within One Year		629,234
Due in More Than One Year		<u>15,038,013</u>
Total Liabilities		<u><u>21,586,438</u></u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		3,860,953
Restricted for Debt Service		976,106
Restricted for Capital Outlay		3,607,975
Restricted for Other Purposes		216,784
Unrestricted		<u>331,750</u>
Total Net Assets	\$	<u><u>8,993,568</u></u>

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
Governmental Activities:						
Instruction:						
Regular	\$ 7,729,397	\$ 341,177	\$ 262,226	\$ 76,970	\$	(7,049,024)
Special	1,221,337	-	394,189	-	-	(827,148)
Vocational	280,055	-	2,243	-	-	(277,812)
Support Services:						
Pupils	416,652	-	-	-	-	(416,652)
Instructional Staff	785,488	-	-	-	-	(785,488)
Board of Education	810,983	-	-	-	-	(810,983)
Administration	1,758,649	110,772	-	-	-	(1,647,877)
Fiscal	481,681	-	-	-	-	(481,681)
Business	2,463	-	-	-	-	(2,463)
Operation and Maintenance of Plant	1,758,469	-	-	-	-	(1,758,469)
Pupil Transportation	1,144,584	-	-	-	-	(1,144,584)
Central	48,442	-	7,970	-	-	(40,472)
Operation of Non-Instructional Services	736,782	432,832	5,538	-	-	(298,412)
Extracurricular Activities	475,367	331,275	-	-	-	(144,092)
Interest and Fiscal Charges	665,968	-	-	-	-	(665,968)
Total Governmental Activities	\$ 18,316,317	\$ 1,216,056	\$ 672,166	\$ 76,970	\$	(16,351,125)
General Revenues:						
Property Taxes Levied for:						
General Purposes					\$	3,730,551
Debt Service						1,027,316
School District Income Tax						1,541,935
Grants and Entitlements not Restricted to Specific Programs						9,455,013
Investment Earnings						75,567
Miscellaneous						157,389
Total General Revenues						15,987,771
Change in Net Assets						(363,354)
Net Assets Beginning of Year						9,356,922
Net Assets End of Year					\$	8,993,568

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Bond Retirement	Permanent Improvement	All Other Governmental Funds	Total Governmental Funds
ASSETS:					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 1,528,287	\$ 765,133	\$ 3,614,380	\$ 229,676	\$ 6,137,476
Materials and Supplies Inventory	-	-	-	11,791	11,791
Accrued Interest Receivable	898	-	-	-	898
Accounts Receivable	13,154	-	-	1,250	14,404
Intergovernmental Receivable	-	-	-	39,458	39,458
Prepaid Items	50,615	-	-	-	50,615
Taxes Receivable	3,849,572	1,056,911	-	-	4,906,483
Income Taxes Receivable	626,186	-	-	-	626,186
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	3,821	-	-	-	3,821
Total Assets	6,072,533	1,822,044	3,614,380	282,175	11,791,132
LIABILITIES:					
Current Liabilities:					
Accounts Payable	81,123	-	-	18,143	99,266
Accrued Wages and Benefits	1,237,817	-	-	43,977	1,281,794
Intergovernmental Payable	237,436	-	-	9,676	247,112
Matured Severance Payable	36,147	-	-	-	36,147
Deferred Revenue	3,575,973	938,211	-	-	4,514,184
Total Liabilities	5,168,496	938,211	-	71,796	6,178,503
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	103,255	-	-	24,870	128,125
Reserved for Prepaid Items	50,615	-	-	-	50,615
Reserved for Property Taxes	391,300	118,700	-	-	510,000
Reserved for Textbooks and Instructional Materials	3,821	-	-	-	3,821
Reserved for Other Purposes	75,469	-	-	-	75,469
Unreserved, Undesignated, Reported in:					
General Fund	279,577	-	-	-	279,577
Special Revenue Funds	-	-	-	191,914	191,914
Debt Service Funds	-	765,133	-	-	765,133
Capital Projects Funds	-	-	3,614,380	(6,405)	3,607,975
Total Fund Balances	904,037	883,833	3,614,380	210,379	5,612,629
Total Liabilities and Fund Balances	\$ 6,072,533	\$ 1,822,044	\$ 3,614,380	\$ 282,175	\$ 11,791,132

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Total Governmental Fund Balances	\$	5,612,629
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		18,788,874
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Property Taxes Receivable	576,961	576,961
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(171,561)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(14,580,000)	
Matured Severance Payable	(146,088)	
Compensated Absences Payable	(739,326)	
Capital Leases Payable	(347,921)	
Net Assets of Governmental Activities	\$	(15,813,335) 8,993,568

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 3,695,592	\$ 1,020,933	\$ -	\$ -	\$ 4,716,525
Income Tax	1,424,234	-	-	-	1,424,234
Intergovernmental	9,196,787	110,129	-	897,233	10,204,149
Interest	44,170	-	31,332	65	75,567
Tuition and Fees	341,177	-	-	-	341,177
Extracurricular Activities	-	-	-	442,047	442,047
Customer Sales and Services	-	-	-	432,832	432,832
Miscellaneous	56,066	-	-	101,323	157,389
Total Revenues	<u>14,758,026</u>	<u>1,131,062</u>	<u>31,332</u>	<u>1,873,500</u>	<u>17,793,920</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	6,645,701	-	-	251,350	6,897,051
Special	863,114	-	-	336,796	1,199,910
Vocational	282,013	-	-	-	282,013
Support Services:					
Pupils	413,771	-	-	-	413,771
Instructional Staff	898,404	-	-	54,811	953,215
Board of Education	643,070	-	-	-	643,070
Administration	1,596,946	-	-	217,454	1,814,400
Fiscal	495,783	-	-	1,119	496,902
Business	2,118	-	-	345	2,463
Operation and Maintenance of Plant	1,813,195	-	-	-	1,813,195
Pupil Transportation	1,005,270	-	-	-	1,005,270
Central	43,097	-	-	5,345	48,442
Operation of Non-Instructional Services	11	-	-	729,545	729,556
Extracurricular Activities	164,380	-	-	273,531	437,911
Capital Outlay	84,954	-	-	32,500	117,454
Debt Service:					
Principal	160,388	415,000	-	-	575,388
Interest	-	665,968	-	-	665,968
Total Expenditures	<u>15,112,215</u>	<u>1,080,968</u>	<u>-</u>	<u>1,902,796</u>	<u>18,095,979</u>
Excess of Revenues Over (Under) Expenditures	<u>(354,189)</u>	<u>50,094</u>	<u>31,332</u>	<u>(29,296)</u>	<u>(302,059)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	-	-	-	50,000	50,000
Inception of Capital Lease	286,364	-	-	-	286,364
Transfers Out	(50,000)	-	-	-	(50,000)
Total Other Financing Sources and Uses	<u>236,364</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>286,364</u>
Net Change in Fund Balances	(117,825)	50,094	31,332	20,704	(15,695)
Fund Balance at Beginning of Year	1,021,862	833,739	3,583,048	189,675	5,628,324
Fund Balance at End of Year	<u>\$ 904,037</u>	<u>\$ 883,833</u>	<u>\$ 3,614,380</u>	<u>\$ 210,379</u>	<u>\$ 5,612,629</u>

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ (15,695)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	253,565	
Depreciation	(973,227)	
		(719,662)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	41,342	
Income Taxes	117,701	
		159,043

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 633,387

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets. (286,364)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(7,384)	
Matured Severance Payable	(146,088)	
Compensated Absences Payable	19,409	
		(134,063)

Change in Net Assets of Governmental Activities \$ (363,354)

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 3,700,869	\$ 3,701,000	\$ 3,700,869	\$ (131)
Income Tax	1,526,919	1,526,925	1,526,919	(6)
Intergovernmental	9,196,787	9,173,168	9,196,787	23,619
Interest	45,316	45,345	45,316	(29)
Tuition and Fees	379,044	379,625	379,044	(581)
Miscellaneous	29,707	29,810	29,707	(103)
Total Revenues	<u>14,878,642</u>	<u>14,855,873</u>	<u>14,878,642</u>	<u>22,769</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	6,581,214	6,626,318	6,606,545	19,773
Special	869,848	881,241	878,645	2,596
Vocational	292,322	293,696	292,322	1,374
Support Services:				
Pupils	428,084	437,471	435,558	1,913
Instructional Staff	864,611	868,146	865,061	3,085
Board of Education	651,330	653,249	653,035	214
Administration	1,538,212	1,555,335	1,552,465	2,870
Fiscal	497,437	503,549	502,253	1,296
Business	25,493	25,565	25,493	72
Operation and Maintenance of Plant	1,615,346	1,687,607	1,684,760	2,847
Pupil Transportation	982,904	1,008,948	1,006,508	2,440
Central	43,228	43,300	43,228	72
Extracurricular Activities	173,747	175,065	173,747	1,318
Capital Outlay	84,954	127,721	113,488	14,233
Total Expenditures	<u>14,648,730</u>	<u>14,887,211</u>	<u>14,833,108</u>	<u>54,103</u>
Excess of Revenues Over (Under) Expenditures	<u>229,912</u>	<u>(31,338)</u>	<u>45,534</u>	<u>76,872</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	396,238	396,238	396,238	-
Proceeds from Sale of Fixed Assets	24,263	24,328	24,263	(65)
Refund of Prior Year Expenditures	1,470	1,480	1,470	(10)
Transfers Out	(446,238)	(446,253)	(446,238)	15
Total Other Financing Sources and Uses	<u>(24,267)</u>	<u>(24,207)</u>	<u>(24,267)</u>	<u>(60)</u>
Net Change in Fund Balances	205,645	(55,545)	21,267	76,812
Fund Balance at Beginning of Year	1,174,440	1,174,440	1,174,440	-
Prior Year Encumbrances Appropriated	152,022	152,022	152,022	-
Fund Balance at End of Year	<u>\$ 1,532,107</u>	<u>\$ 1,270,917</u>	<u>\$ 1,347,729</u>	<u>\$ 76,812</u>

See Accompanying Notes to the Basic Financial Statements

LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY

Statement of Fiduciary Net Assets
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>55,936</u>
Total Assets	<u>55,936</u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	<u>55,936</u>
Total Liabilities	\$ <u>55,936</u>
Net Assets	\$ <u><u>-</u></u>

See Accompanying Notes to the Basic Financial Statements

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The District was established in 1957 through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Licking County, and includes the Village of Hanover and portions of Mary Ann, Perry, Harrison and Hanover Townships. The District is the 258th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 92 non-certificated employees and 153 certificated full-time teaching personnel who provide services to 2,120 students and other community members. The District currently operates 6 instructional buildings.

Reporting Entity:

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

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

The District is associated with four organizations, which are defined as jointly governed organizations and an insurance purchasing pool. These organizations include the Licking County Vocational School, the Central Ohio Special Education Regional Resource Center, the Metropolitan Education Council, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds 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 fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, Bond Retirement Fund, and the Permanent Improvement Fund are the District's major governmental funds:

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

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

Permanent Improvement Capital Projects Fund - The Permanent Improvement Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the 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, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

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

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

Expenditures/Expenses

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level within each function and fund. Any budgetary modifications at this level may only be made by the Board of Education.

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements and nonnegotiable certificates of deposit. Repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$44,170, which includes \$1,988 assigned from other District funds.

For presentation on the financial statements, 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 District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

G. Prepaid Items

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

H. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation.

J. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is five thousand dollars. The 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, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

L. 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 District will compensate the employees for benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

The entire sick leave benefit liability is reported on the government-wide financial statements.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on the accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

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 severance payable" 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 District's termination policy.

M. 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 those once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

N. Net Assets

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

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

O. Fund Balance Reserves and Designations

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

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

P. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Estimates

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

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 the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented 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 fund financial statements are the following:

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 a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$117,825)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	1,060,186
Accrued FY 2004, Not Yet Received in Cash	(1,200,201)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(1,364,787)
Accrued FY 2004, Not Yet Paid in Cash	1,828,272
Encumbrances Outstanding at Year End (Budget Basis)	(184,378)
Budget Basis	<u>\$21,267</u>

4. DEPOSITS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

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Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan Mortgage Corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority.

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Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3. The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$64,974 and the bank balance was \$142,958. Of the bank balance, \$100,000 was covered by federal depository insurance and \$42,958 was covered by pledged collateral.

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

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

	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$5,064,443	\$5,064,443	\$5,064,443
Star Ohio		1,067,816	1,067,816
Totals	<u>\$5,064,443</u>	<u>\$6,132,259</u>	<u>\$6,132,259</u>

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The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in *GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."* A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$6,197,233	\$-
Investment:		
STAR Ohio	(1,067,816)	1,067,816
Repurchase Agreement	(5,064,443)	5,064,443
<i>GASB Statement No. 3</i>	\$64,974	\$6,132,259

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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.

Tangible personal property taxes 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.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$391,300 in the General Fund and \$118,700 in the Bond Retirement Debt Service Fund.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$143,084,660	83%	\$146,773,960	83%
Public Utility	17,941,680	10%	17,170,970	10%
Tangible Personal Property	12,268,920	7%	12,354,426	7%
Total Assessed Value	<u>\$173,295,260</u>	<u>100%</u>	<u>\$176,299,356</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$40.18		\$39.80	

6. INCOME TAX

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1994, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 2004, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Title VI-B	\$18,177
Food Service	21,281
Total Governmental Activities	<u>\$39,458</u>

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8. CAPITAL ASSETS

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

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 61,282	\$ -	\$ -	\$ 61,282
Total Nondepreciable Capital Assets	<u>61,282</u>	<u>-</u>	<u>-</u>	<u>61,282</u>
Depreciable Capital Assets				
Land Improvements	1,897,498	-	-	1,897,498
Buildings and Building Improvements	21,483,572	-	-	21,483,572
Furniture, Fixtures, and Equipment	785,001	253,565	-	1,038,566
Vehicles	1,820,403	-	-	1,820,403
Total Depreciable Capital Assets	<u>25,986,474</u>	<u>253,565</u>	<u>-</u>	<u>26,240,039</u>
Less Accumulated Depreciation				
Land Improvements	648,344	79,814	-	728,158
Buildings and Building Improvements	4,345,859	653,390	-	4,999,249
Furniture, Fixtures, and Equipment	280,432	112,077	-	392,509
Vehicles	1,264,585	127,946	-	1,392,531
Total Accumulated Depreciation	<u>6,539,220</u>	<u>973,227</u>	<u>-</u>	<u>7,512,447</u>
Depreciable Capital Assets, Net	<u>19,447,254</u>	<u>(719,662)</u>	<u>-</u>	<u>18,727,592</u>
Governmental Activities Capital Assets, Net	<u>\$19,508,536</u>	<u>\$(719,662)</u>	<u>\$ -</u>	<u>\$18,788,874</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$729,057
Vocational	1,920
Support Services:	
Instruction Staff	31,316
Board of Education	21,825
Administration	15,236
Fiscal	589
Operation and Maintenance of Plant	1,524
Pupil Transportation	127,946
Operations of Non-Instruction	6,358
Extracurricular	37,456
Total Depreciation Expense	<u>\$973,227</u>

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents	\$1,000	\$41,808,400
Automobile Liability	100	1,000,000
Uninsured Motorists	100	1,000,000
General Liability		
Per occurrence	0	2,000,000
Per year	0	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$413,451, \$382,751, and \$344,539, respectively; 51 percent has been contributed for 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$200,676.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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

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For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,073,231, \$1,009,972, and \$943,626, respectively; which were equal to the required contributions for each year.

11. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 4.5% of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

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The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

12. EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 51 days for all employees.

Employees receive 3 personal days per year. Upon retirement, payment is made for one-fourth of accrued, but unused personal leave.

Bargaining unit members, who retire under STRS criteria, may receive a retirement incentive payment of fifteen thousand dollars (\$15,000). In order to qualify for this benefit, the bargaining unit member must give written notice to the Superintendent on or before April 1 (or Monday following if April 1 is on a weekend) of the year of retirement and have 30 or fewer years.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life.

13. LONG-TERM OBLIGATIONS

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

	Balance at 07/01/03	Additions	Deductions	Balance at 06/30/04	Amounts Due in One Year
Building Construction Bonds	\$14,995,000	\$ -	\$ 415,000	\$14,580,000	\$430,000
Capital Leases	279,944	286,364	218,387	347,921	130,255
Compensated Absences	758,735	739,326	758,735	739,326	68,979
Total long term Obligations	\$16,033,679	\$1,025,690	\$1,392,122	\$15,667,247	\$629,234

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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The Building Construction Bonds are dated 4/1/99 and issued in the amount of \$16,360,000 with stated interest rate of 3.8% to 5% and a final maturity date of 12/01/25. The beginning balance of the general obligation bonds has been adjusted to capture the value of capital appreciation bonds included in the original issue that mature in 2005 and 2006.

Capital leases will be paid from the General Fund. Compensated absences and employee bonuses will be paid from the fund from which the employees' salaries are paid.

The District's voted legal debt margin was \$1,286,942 with an unvoted debt margin of \$176,299 at June 30, 2004.

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$430,000	\$649,698	\$1,079,698
2006	450,000	641,312	1,091,312
2007	450,000	641,313	1,091,313
2008	450,000	631,863	1,081,863
2009	470,000	612,542	1,082,542
2010 – 2014	2,665,000	2,726,486	5,391,486
2015 – 2019	3,355,000	2,012,113	5,367,113
2020 – 2024	4,280,000	1,063,000	5,343,000
2025 - 2026	2,030,000	102,750	2,132,750
Total	<u>\$14,580,000</u>	<u>\$9,081,077</u>	<u>\$23,661,077</u>

14. CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for copiers, stadium bleachers, and fitness equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copy machines, fitness equipment and stadium bleachers have been capitalized in the amount of \$717,094. The copier lease was restructured in fiscal year 2004 to add 8 additional copiers. This new lease agreement incorporated the remaining balance of the old lease and totaled \$286,364. The capitalized amount of the leases represents the present value of the minimum lease payment at the time of acquisition. A corresponding liability is recorded in the Statement of Net Assets. Principal payments in fiscal year 2004 total \$122,120 in the Governmental Funds.

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

<u>Fiscal Year Ending June 30,</u>	<u>Midwest Bankers</u>	<u>Fitness Equipment</u>	<u>Danka Copiers</u>
2005	\$26,621	\$55,820	\$ 8,040
2006	26,622	-	68,040
2007	-	-	68,040
2008	-	-	68,040
2009	-	-	11,340
Less: Amount Representing Interest	<u>(5,027)</u>	<u>(1,411)</u>	<u>(38,204)</u>
Present Value of Net Minimum Lease Payments	<u>\$48,216</u>	<u>\$54,409</u>	<u>\$245,296</u>

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2003	\$ 12,400	\$(236,857)	\$(224,457)
Current Year Set-aside Requirement	309,560	309,560	619,120
Qualifying Disbursements	<u>(318,139)</u>	<u>(72,703)</u>	<u>(390,842)</u>
Total	<u>\$ 3,821</u>	<u>\$ -</u>	<u>\$ 3,821</u>
Cash Balance Carried Forward to FY 2005	<u>\$ 3,821</u>	<u>\$ -</u>	<u>\$ 3,821</u>

16. JOINTLY GOVERNED ORGANIZATIONS

Licking County Vocational School District - The Licking County Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 9 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Licking County Vocational School District, Corey Thompson, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

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JUNE 30, 2004
(Continued)**

Central Ohio Special Education Regional Resource Center - The District participates in the Central Ohio Special Education Regional Resource Center (COSERRC), a jointly governed organization. COSERRC is one of sixteen (16) centers in Ohio, which serves as the organizational structure offering multi-district special educational services. Each SERRC is designed to initiate, expand, and improve the delivery of special education services to children with disabilities ages 3 through 21. The governing board of COSERRC consists of superintendents or a designated representative from each school district. Financial information may be obtained from the Franklin County Education Service Center, Deloris Fate, who serves as Treasurer, at 1717 Alum Creek Drive, Columbus, Ohio, 43207.

Metropolitan Education Council - The District participates in the Metropolitan Education Council (MEC), a jointly governed organization. The organization is composed of over 100 members, which include school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The District's membership payment to MEC for fiscal year 2004 was \$820. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, Ohio, 43232.

17. INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

18. STATE SCHOOL FUNDING DECISION

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

19. Contingencies

A. Grants

The 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 are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

Licking Valley Local School District
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
Year ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Non-cash Receipts	Cash Expenditures	Non-cash Disbursements
<u>U.S. Department of Agriculture</u>						
Passed through Ohio Department of Education						
Nutrition Cluster:						
Food Distribution		10.550	\$ -	\$ 55,331	\$ -	\$ 55,331
National School Lunch Program	LL-P4-03,04	10.555	<u>153,039</u>	<u>-</u>	<u>153,040</u>	<u>-</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>153,039</u>	<u>55,331</u>	<u>153,040</u>	<u>55,331</u>
<u>U.S. Department of Education</u>						
Passed through Ohio Department of Education						
Title I	C1-S1-04	84.010	148,663	-	136,754	-
Title VI-B	6B-SF-03 & 04	84.027	227,349	-	235,548	-
Drug Free Schools Grant	DR-S1-04	84.186	8,097	-	9,041	-
Improving Teacher Quality	TR-S1-04	84.367	63,292	-	69,970	-
Assistive Technology	AT-S3-02	84.352	32,120	-	32,521	-
Title VI - Innovation Strategies	C2-S1-04	84.298	13,969	-	13,969	-
Title VI D - Technology Literacy	TJ-S1-04	84.318	<u>4,024</u>	<u>-</u>	<u>4,024</u>	<u>-</u>
Total U.S. Department of Education			<u>497,514</u>	<u>-</u>	<u>501,827</u>	<u>-</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 650,553</u>	<u>\$ 55,331</u>	<u>\$ 654,867</u>	<u>\$ 55,331</u>

The accompanying notes are an integral part of this schedule.

Licking Valley Local School District
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
Year ended June 30, 2004

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

FOOD DISTRIBUTION

Non-monetary assistance is reported in the accompanying schedule of federal awards receipts and expenditures at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.



Report On Compliance And On Internal Control Required By Government Auditing Standards

Board of Education
Licking Valley Local School District
1379 Licking Valley Road
Newark, Ohio 43055

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Licking Valley Local School District, Licking County, Ohio (the District) as of and for the year ended June 30, 2004 which collectively comprise the District's financial statements and have issued our report thereon dated December 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
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FAX (740) 345-5635

We noted certain matters that we reported to management of the District in a separate letter dated December 15, 2004.

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
December 15, 2004



Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Board of Education
Licking Valley Local School District
1379 Licking Valley Road
Newark, Ohio 43055

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2004-1.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over federal compliance that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated December 15, 2004.

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

William Shuman & Sons, Inc.

Newark, Ohio
December 15, 2004

**Licking Valley Local School District
Licking County**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster \ 10.550 and 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2004-1
CFDA Title and Number	Nutrition Cluster\10.555 & 10.550
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

INTERNAL CONTROLS – REPORTABLE CONDITION

7 CFR 245.6a requires the District to verify eligibility on a sample of the applications that have been approved for participation by December 15th of each school year. The verification sample size is generally 3% of the number of approved applications on file as of October 17th of each school year. The District may select the sample by either random sampling or focused sampling.

The District performed verification procedures in a timely manner, however, based on participation records at October 31, 2003, the Food Service Coordinator should have tested 13 applicants; the Food Service Coordinator only tested 6 applicants. In addition, the Food Service Coordinator does not keep documentation of the verification calculation on file. Non-verification could result in ineligible households receiving federal subsidies.

We recommend the Food Service Coordinator perform the verification procedures in accordance with the above compliance requirements. We also recommend the Food Service Coordinator keep a Verification Summary Report on file to document the procedures used and results of the verification process.

See the Corrective Action Plan of the District on page 48 of this report.

**Licking Valley Local School District
Licking County**

CORRECTIVE ACTION PLAN

June 30, 2004

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-1	The Food Service Coordinator will select the verification sample size based on approved applications on file as of October 31 st . In addition, she will document the verification process in a Verification Summary Report and keep the documentation on file.	This process has been implemented.	Jo Lynn Torbert, Treasurer



**Auditor of State
Betty Montgomery**

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**LICKING VALLEY 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
JANUARY 18, 2005**