



**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 10, 2006

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- General revenues accounted for \$17,925,299 in revenue or 90 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,010,922 or 10 percent of total revenues of \$19,936,221.
- Total program expenses were \$20,239,200.
- In total, net assets decreased \$302,979.
- Outstanding debt decreased from \$ 83,361,040 to \$77,137,720 during 2005.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Reporting the School District's Fiduciary Responsibilities

The School District's only fiduciary fund is for student managed activities. The School District's fiduciary activities are reported on the Statement of Fiduciary Assets and Liabilities on page 18. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

**(Table 1)
Net Assets
Governmental Activities**

	2005	2004
Assets		
Current and Other Assets	\$ 59,618,190	\$ 73,131,691
Capital Assets	40,796,959	31,582,607
Total Assets	100,415,149	104,714,298
Liabilities		
Current and Other Liabilities	12,500,674	10,477,206
Long-Term Liabilities:		
Due Within One Year	12,445,455	30,124,335
Due in More Than One Year	65,437,334	53,778,092
Total Liabilities	90,383,463	94,379,633
Net Assets		
Invested in Capital Assets Net of Debt	10,045,014	7,470,280
Restricted	171,847	1,521,275
Unrestricted	(185,175)	1,343,110
Total Net Assets	\$ 10,031,686	\$ 10,334,665

Total net assets decreased by \$302,979. An increase of \$9,214,352 in total capital assets reflects additional purchases exceeding depreciation. Total liabilities decreased by \$3,996,170, which was primarily a result of the payment of debt and debt restructuring.

Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparison. This will enable the reader to draw further conclusions about the School District's financial status and possibly project future problems.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

**(Table 2)
Change in Net Assets
Governmental Activities**

Revenues	2005	2004
<i>Program Revenues</i>		
Charges for Services	\$ 843,690	\$ 627,659
Operating Grants	1,089,401	499,135
Capital Grants	77,831	0
<i>General Revenues</i>		
Property Taxes	10,829,677	11,222,817
Grants and Entitlements	6,104,871	5,965,488
Other	990,751	342,646
<i>Total Revenues</i>	<u>19,936,221</u>	<u>18,657,745</u>
<i>Program Expenses</i>		
Instruction	9,778,137	7,935,328
Support Services	6,476,100	5,561,514
Operation of Non-Instructional Services	675,444	648,110
Extracurricular Activities	421,719	311,849
Interest and Fiscal Charges	2,887,800	1,818,854
Issuance Costs	0	84,652
<i>Total Expenses</i>	<u>20,239,200</u>	<u>16,360,307</u>
Increase in Net Assets	<u>\$ (302,979)</u>	<u>\$ 2,297,438</u>

Governmental Activities

Several revenue sources fund the School District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$10.8 million in 2005. General revenues from grants and entitlements, such as the school foundation program, are also a large revenue generator.

Total revenues increased by almost \$1.3 million. Almost \$600,000 of this increase was due to the receipt of additional operating grants and an additional \$650,000 of this increase was due to an increase in other receipts, mostly interest earned on investments of the School District.

Total expenses increased by almost \$4 million. Almost \$2 million of this increase was due to additional instruction related expenses because of an increase in students and the hiring of additional teachers. An additional \$1 million of this increase was due to the additional debt related expenses of the School District. The remaining \$1 million of this increase was due to increases in pupil and instructional staff expenses and operation of maintenance and plant expenses.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

**(Table 3)
Total and Net Cost of Program Services
Governmental Activities**

	Total Cost of Service 2005	Total Cost of Service 2004	Net Cost of Service 2005	Net Cost of Service 2004
Program Expenses				
Instruction	\$ 9,778,137	\$ 7,935,328	\$ (8,990,831)	\$ (7,774,616)
Support Services:				
Pupil and Instructional Staff	1,688,821	1,239,041	(1,443,054)	(1,088,785)
Board of Education, Administration Fiscal and Central	1,906,582	1,735,966	(1,816,911)	(1,668,989)
Operation and Maintenance of Plant	1,663,833	1,393,870	(1,654,833)	(1,381,105)
Pupil Transportation	1,216,864	1,192,637	(1,199,880)	(1,177,649)
Operation of Non-Instructional Services	675,444	648,110	25,626	(54,450)
Extracurricular Activities	421,719	311,849	(260,595)	(184,413)
Interest and Fiscal Charges	2,887,800	1,818,854	(2,887,800)	(1,818,854)
Issuance Costs	0	84,652	0	(84,652)
Total	\$ 20,239,200	\$ 16,360,307	\$ (18,228,278)	\$ (15,233,513)

Instruction and student support services comprise 56 percent of governmental program expenses. Interest, fiscal and administration charges were 24 percent. Interest expense was attributable to the outstanding bonds; fiscal expenses include payments to the County Auditor for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation and maintenance of facilities accounts for 14 percent of governmental program expenses. Operation of non-instructional services, consisting primarily of food service operations, comprises 3 percent of governmental program expenses.

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

The School District's Funds

The School District's governmental funds (as presented on the balance sheet on page 13) reported a combined fund balance of \$46,152,577, which is less than last year's balance of \$62,134,599. All governmental funds had total revenues and other financing sources of \$62,574,062, total expenditures and other financing uses of \$78,552,319 and an increase in reserve for inventory of \$3,765. The net change in fund balances for the year was a decrease of \$15,982,022.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

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

General Fund

The School District's general fund balance increased \$340,341. The increase in fund balance was due to the District being able to keep their level of expenditures below their level of revenues. However, the increase of fund balance was less than that reported in the prior year and can be attributed to increases in expenditures outpacing increases in revenues.

Debt Service Fund

The School District's debt service fund balance decreased \$18.5 million. The decrease in fund balance was due mainly to the School District advance refunding \$17.1 million of outstanding 2001 School Improvement General Obligation Bonds.

Building Fund

The School District's building fund balance increased \$2.1 million. The increase in fund balance was due to the issuance of \$11 million in bond anticipation notes and an additional \$1 million in general obligation bonds which was offset by almost \$10 million in capital outlay related to the School District's current construction projects.

General Fund Budgeting Highlights

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

Budget basis estimated revenue was \$15,886,169 compared to original estimates of \$13,651,876. Of this \$2,234,293 difference, most was due to conservative state subsidy and tax estimates.

Budget basis appropriations were \$15,061,387 which was close to original appropriations of \$14,336,667. However, regular instruction budget basis appropriations were \$6,339,166 which was a \$5.2 million decrease from original appropriations. This was offset by increases in appropriations to all remaining appropriation line items. These changes were the result of over estimating the cost of regular instruction and underestimating other expenses of the School District.

During the course of fiscal year 2005, the School District modified its general fund budget. The School District uses site-based budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$40,796,959 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. See note 8 for additional details. Table 4 shows fiscal year 2005 balances compared with 2004.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

**(Table 4)
Capital Assets at June 30
Governmental Activities**

	2005	2004
Land	\$ 1,821,947	\$ 1,401,947
Construction in Progress	10,852,548	1,483,014
Land Improvements	141,497	70,809
Buildings and Improvements	26,530,481	27,261,244
Furniture and Equipment	667,863	583,705
Vehicles	782,623	781,888
Total Capital Assets	\$ 40,796,959	\$ 31,582,607

All capital assets, except land and construction in progress, are reported net of depreciation. The \$9,214,352 increase in capital assets was attributable to construction of two new elementary schools and the related purchase of land.

Set-asides

Senate Bill 345 requires the School District to set aside \$151.74 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2005, this amounted to \$277,150 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for both set asides.

Debt

At June 30, 2005, the School District had \$77,137,720 in outstanding debt with \$12,325,000 due within one year. See note 12 for additional details. Table 5 summarizes bonds and notes outstanding.

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

	2005	2004
Various School Improvement Serial Bonds	\$ 65,818,694	\$ 54,217,008
Various School Improvement Capital Appreciation Bonds	319,026	144,032
Bond Anticipation Notes	11,000,000	29,000,000
Total	\$ 77,137,720	\$ 83,361,040

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

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

Current Issues

The Licking Heights Local School District anticipates a continued moderate growth in enrollment, as has happened during the last few years. The School District is in the process of constructing two new elementary schools, while renovating the two existing elementary buildings within the School District from a \$40 million bond issue that was passed in November 2003. In June 2005, a portion of the \$25 million bond issue from March 2000, used to construct the current Jr/Sr High School, was refunded at a savings to the taxpayers. This refunding was possible in part due to the District maintaining a bond rating of A1 with Moody's. In addition to the refunding, \$1 million in general obligation bonds were issued for the purpose of purchasing school buses to assist in updating an aging fleet.

Contacting the School District's Financial Management

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalent	\$ 21,083,021
Cash and Cash Equivalents with Fiscal Ager	6,914
Investments in Segregated Accounts	26,805,951
Receivables:	
Taxes	10,922,971
Accounts	5,840
Intergovernmental	5,034
Prepaid Items	812
Inventory Held For Resale	9,191
Materials and Supplies Inventory	2,256
Deferred Charges	776,200
Nondepreciable Capital Assets	12,674,495
Depreciable Capital Assets (Net)	28,122,464
<i>Total Assets</i>	100,415,149
Liabilities	
Accounts Payable	163,582
Contracts Payable	1,848,095
Accrued Wages and Benefits	1,331,687
Accrued Interest Payable	359,168
Retainage Payable	328,239
Intergovernmental Payable	440,227
Deferred Revenue	8,022,762
Matured Interest Payable	6,914
Long Term Liabilities	
Due Within One Year	12,445,455
Due Within More Than One Year	65,437,334
<i>Total Liabilities</i>	90,383,463
Net Assets	
Invested in Capital Assets, Net of Related Deb	10,045,014
Restricted for:	
Other Purposes	171,847
Unrestricted	(185,175)
<i>Total Net Assets</i>	\$ 10,031,686

See accompanying notes to the basic financial statements

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	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	\$ 7,124,143	\$ 238,188	\$ 18,319	\$ 14,910	\$ (6,852,726)
Special	1,866,793	0	469,952	0	(1,396,841)
Vocational	267,575	0	0	0	(267,575)
Other	519,626	0	0	45,937	(473,689)
Support Services:					
Pupils	780,570	0	188,320	0	(592,250)
Instructional Staff	908,251	0	57,447	0	(850,804)
Board of Education	58,687	0	0	0	(58,687)
Administration	1,293,039	0	89,671	0	(1,203,368)
Fiscal	479,873	0	0	0	(479,873)
Operation and Maintenance of Plant	1,663,833	0	9,000	0	(1,654,833)
Pupil Transportation	1,216,864	0	0	16,984	(1,199,880)
Central	74,983	0	0	0	(74,983)
Operation of Non-Instructional Services:					
Food Service Operations	675,444	455,838	245,232	0	25,626
Extracurricular Activities	421,719	149,664	11,460	0	(260,595)
Interest and Fiscal Charges	2,887,800	0	0	0	(2,887,800)
Total Governmental Activities	\$ 20,239,200	\$ 843,690	\$ 1,089,401	\$ 77,831	\$ (18,228,278)
General Revenues					
Property Taxes Levied for:					
General Purposes					8,157,832
Debt Service					2,671,845
Grants and Entitlements not Restricted to Specific Programs					6,104,871
Investment Earnings					840,223
Miscellaneous					150,528
Total General Revenues					17,925,299
Change in Net Assets					(302,979)
Net Assets Beginning of Year					10,334,665
Net Assets End of Year					\$ 10,031,686

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 3,046,312	\$ 13,834,051	\$ 3,774,648	\$ 428,010	\$ 21,083,021
Cash and Cash Equivalents with Fiscal Agent	0	6,914	0	0	6,914
Investments in Segregated Accounts	0	0	26,805,951	0	26,805,951
Receivables:					
Taxes	8,109,939	2,813,032	0	0	10,922,971
Accounts	5,435	0	0	405	5,840
Intergovernmental	0	0	0	5,034	5,034
Prepaid Items	761	0	0	51	812
Inventory Held For Resale	0	0	0	9,191	9,191
Materials and Supplies Inventory	0	0	0	2,256	2,256
Total Assets	\$ 11,162,447	\$ 16,653,997	\$ 30,580,599	\$ 444,947	\$ 58,841,990
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 84,613	\$ 0	\$ 68,839	\$ 10,130	\$ 163,582
Contracts Payable	0	0	1,848,095	0	1,848,095
Accrued Wages and Benefits	1,296,420	0	0	35,267	1,331,687
Retainage Payable	0	0	328,239	0	328,239
Intergovernmental Payable	414,763	0	0	25,464	440,227
Deferred Revenue	6,360,821	2,206,329	0	3,519	8,570,669
Matured Interest Payable	0	6,914	0	0	6,914
Total Liabilities	8,156,617	2,213,243	2,245,173	74,380	12,689,413
Fund Balances					
Reserved for Encumbrances	271,784	0	2,917,190	7,432	3,196,406
Reserved for Inventory	0	0	0	11,447	11,447
Reserved for Property Taxes	1,749,118	606,703	0	0	2,355,821
Unreserved:					
Undesignated, Reported in:					
General Fund	984,928	0	0	0	984,928
Special Revenue Funds	0	0	0	191,998	191,998
Debt Service Fund	0	13,834,051	0	0	13,834,051
Capital Projects Funds	0	0	25,418,236	159,690	25,577,926
Total Fund Balances	3,005,830	14,440,754	28,335,426	370,567	46,152,577
Total Liabilities and Fund Balances	\$ 11,162,447	\$ 16,653,997	\$ 30,580,599	\$ 444,947	\$ 58,841,990

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total Governmental Fund Balances:		\$	46,152,577
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund			40,796,959
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the fund:			
Delinquent Property Taxes:	544,388		
Intergovernmental	3,519		
Total			547,907
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued			776,200
In the statement of activities, interest is accrued on outstanding debt whereas in the governmental funds, an interest expenditure is not recorded.			(359,168)
In the statement of activities, bond refunding costs are amortized over the term of the bonds, whereas in governmental funds bond refunding expenditure is reported when bonds are issued			1,431,744
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds			
General Obligation Bonds:	(62,635,000)		
Capital Appreciation Bonds:	(518,143)		
Bond Premium	(4,416,321)		
Bond Anticipation Notes:	(11,000,000)		
Compensated Absences	(661,754)		
Capital Lease Payable	(83,315)		
Total			(79,314,533)
<i>Net Assets of Governmental Activities</i>		\$	10,031,686

See accompanying notes to the basic financial statements

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 8,315,976	\$ 2,730,499	\$ 0	\$ 0	\$ 11,046,475
Intergovernmental	6,140,467	320,828	0	795,829	7,257,124
Investment Income	171,977	0	668,246	0	840,223
Tuition and Fees	214,007	0	0	7,901	221,908
Extracurricular Activities	21,872	0	0	127,792	149,664
Rentals	16,280	0	0	0	16,280
Charges for Services	0	0	0	455,838	455,838
Contributions and Donations	0	0	0	11,460	11,460
Miscellaneous	126,104	0	0	5,825	131,929
<i>Total Revenues</i>	<u>15,006,683</u>	<u>3,051,327</u>	<u>668,246</u>	<u>1,404,645</u>	<u>20,130,901</u>
Expenditures					
Current:					
Instruction:					
Regular	6,220,560	0	438,985	48,313	6,707,858
Special	1,616,807	0	32,062	170,062	1,818,931
Vocational	232,749	0	0	63	232,812
Other	517,527	0	0	2,099	519,626
Support Services:					
Pupils	550,790	0	96	190,896	741,782
Instructional Staff	824,040	0	3,773	54,534	882,347
Board of Education	56,687	0	0	0	56,687
Administration	1,159,276	0	0	87,652	1,246,928
Fiscal	445,252	42,673	0	0	487,925
Operation and Maintenance of Plant	1,477,698	0	78,150	14,703	1,570,551
Pupil Transportation	1,250,896	0	1,583	3,971	1,256,450
Central	69,636	0	0	0	69,636
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	657,065	657,065
Extracurricular Activities	225,493	0	5,087	135,337	365,917
Capital Outlay	0	0	9,968,563	0	9,968,563
Debt Service:					
Principal Retirement	62,862	30,050,000	0	0	30,112,862
Interest and Fiscal Charges	7,474	2,984,595	0	0	2,992,069
Issuance Costs	0	328,955	0	0	328,955
<i>Total Expenditures</i>	<u>14,717,747</u>	<u>33,406,223</u>	<u>10,528,299</u>	<u>1,364,695</u>	<u>60,016,964</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>288,936</u>	<u>(30,354,896)</u>	<u>(9,860,053)</u>	<u>39,950</u>	<u>(39,886,063)</u>
Other Financing Sources (Uses)					
General Obligation Bonds Issued	0	28,099,994	1,000,000	0	29,099,994
Proceeds from Inception of Capital Lease	55,016	0	0	0	55,016
Proceeds of Notes	0	0	11,000,000	0	11,000,000
Premium on Debt Issuance	0	2,284,540	0	0	2,284,540
Payment to Refunded Bond Escrow Agent	0	(18,531,744)	0	0	(18,531,744)
Transfers In	0	0	0	3,611	3,611
Transfers Out	(3,611)	0	0	0	(3,611)
<i>Total Other Financing Sources (Uses)</i>	<u>51,405</u>	<u>11,852,790</u>	<u>12,000,000</u>	<u>3,611</u>	<u>23,907,806</u>
<i>Net Change in Fund Balance</i>	<u>340,341</u>	<u>(18,502,106)</u>	<u>2,139,947</u>	<u>43,561</u>	<u>(15,978,257)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,665,489</u>	<u>32,942,860</u>	<u>26,195,479</u>	<u>330,771</u>	<u>62,134,599</u>
Increase in Reserve for Inventory	0	0	0	(3,765)	(3,765)
<i>Fund Balances End of Year</i>	<u>\$ 3,005,830</u>	<u>\$ 14,440,754</u>	<u>\$ 28,335,426</u>	<u>\$ 370,567</u>	<u>\$ 46,152,577</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**RECONCILIATION OF THE CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net Change in Fund Balances - Total Governmental Funds		\$(15,978,257)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Asset Additions	10,156,136	
Current Year Depreciation	<u>(918,018)</u>	9,238,118
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(23,766)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	(216,798)	
Intergovernmental	<u>3,519</u>	(213,279)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	30,050,000	
Capital Leases	<u>62,862</u>	30,112,862
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.		
Inception of Capital Leases	(55,016)	
Proceeds of Bonds	(29,099,994)	
Proceeds of Notes	<u>(11,000,000)</u>	(40,155,010)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		115,393
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(211,528)	
Intergovernmental Payable	232,619	
Change in Inventory	(3,765)	
Bond Premium	(2,176,342)	
Bond Issuance Costs	310,320	
Bond Accretion	<u>(82,088)</u>	(1,930,784)
Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		
Payment of Prior Year Debt	17,100,000	
Loss on Refunding	<u>1,431,744</u>	<u>18,531,744</u>
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ (302,979)</u></u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Property Taxes	\$ 8,044,805	\$ 8,709,440	\$ 8,214,171	\$ (495,269)
Intergovernmental	5,359,204	6,648,599	6,163,601	(484,998)
Investment Income	50,000	152,975	152,975	0
Tuition and Fees	172,008	225,177	213,977	(11,200)
Extracurricular Activities	8,131	23,186	21,872	(1,314)
Rentals	10,000	13,880	13,880	0
Contributions and Donations	0	142	142	0
Miscellaneous	7,728	112,770	112,770	0
<i>Total Revenues</i>	<u>13,651,876</u>	<u>15,886,169</u>	<u>14,893,388</u>	<u>(992,781)</u>
Expenditures				
Current:				
Instruction:				
Regular	11,578,396	6,339,166	6,278,254	60,912
Special	359,190	1,610,307	1,603,603	6,704
Vocational	12,398	231,772	230,148	1,624
Other	250,500	527,532	517,696	9,836
Support Services				
Pupils	194,650	585,008	559,734	25,274
Instructional Staff	138,650	798,775	811,559	(12,784)
Board of Education	28,049	44,505	36,235	8,270
Administration	404,141	1,304,409	1,173,555	130,854
Fiscal	444,230	630,875	452,310	178,565
Operation and Maintenance of Plant	603,448	1,475,883	1,435,814	40,069
Pupil Transportation	251,595	1,196,838	1,178,321	18,517
Central	71,300	116,599	69,636	46,963
Extracurricular Activities	120	199,718	217,222	(17,504)
<i>Total Expenditures</i>	<u>14,336,667</u>	<u>15,061,387</u>	<u>14,564,087</u>	<u>497,300</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(684,791)</u>	<u>824,782</u>	<u>329,301</u>	<u>(495,481)</u>
Other Financing Source				
Refund of Prior Year Expenditures	0	18,473	18,473	0
<i>Net Change in Fund Balance</i>	<u>(684,791)</u>	<u>843,255</u>	<u>347,774</u>	<u>(495,481)</u>
<i>Fund Balance Beginning of Year</i>	1,991,930	1,991,930	1,991,930	0
Prior Year Encumbrances Appropriated	351,563	351,563	351,563	0
<i>Fund Balance End of Year</i>	<u>\$ 1,658,702</u>	<u>\$ 3,186,748</u>	<u>\$ 2,691,267</u>	<u>\$ (495,481)</u>

See accompanying notes to the basic financial statements.

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>36,642</u>
Liabilities	
Accounts Payable	\$ 69
Due to Students	<u>36,573</u>
<i>Total Liabilities</i>	<u>\$ 36,642</u>

See accompanying notes to the basic financial statements.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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

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

The School District was established in 1956, and is located just east of the City of Columbus about one-half mile from the Franklin County border. The School District serves an area of approximately 53 square miles. It is located in Licking and Franklin Counties and covers parts of the City of Pataskala and Jersey, St. Albans, and Etna Townships in Licking County and parts of Jefferson Township, City of Reynoldsburg, and the City of Columbus in Franklin County. Average daily membership on, or as of October 1, 2004, was 2,007. The School District employs 154 certificated and 90 non-certificated employees. The School District currently operates three instructional buildings, one administrative building, and one garage.

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

Reporting Entity

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

The School District is involved with four jointly governed organizations and an insurance purchasing pool. These organizations are the Licking Area Computer Association, the Metropolitan Educational Council, the Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. Additional information concerning the jointly governed organizations and the insurance purchasing pool is presented in Notes 16 and 17.

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

LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

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

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

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

Building Capital Projects Fund – The building fund is used to account for bond and note proceeds and interest revenue to be used to be used for the construction of two new elementary schools and renovations and additions to the School District's existing elementary school buildings.

The other governmental funds of the School District account for grants and other resources whose use is 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 School District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student advance placement testing and student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Budgetary modifications at this level require a resolution of the Board of Education. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, and STAROhio.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$171,977, which includes \$163,550 assigned from other School District funds.

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On fund financial statements, reported inventories are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net assets.

Inventories consist of materials and supplies held for consumption and donated and purchased food held for resale.

I. Deferred Charges

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Bond Premiums

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

K. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-20 Years
Buildings and Improvements	20-45 Years
Furniture and Equipment	7-20 Years
Vehicles	5-20 Years

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 employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

O. Fund Balance Reserves

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

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

P. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

Q. Estimates

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 3: BUDGETARY BASIS OF ACCOUNTING

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

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- 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 statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$ 340,341
Net adjustment for revenue accruals	(149,838)
Net adjustment for expenditure accruals	3,184,581
Adjustment for encumbrances	<u>(3,027,310)</u>
Budget Basis	<u>\$ 347,774</u>

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Title VI-B	\$ 1,026
Title III	1,424
Title VI-R	1,574

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 4: ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Legal Compliance

The following funds had appropriations exceeding certified resources available for expenditures at June 30, 2005, contrary to Ohio Revised Code Section 5705.39:

Fund	Total Certified Resources	Appropriations	Variance
Public School Support	\$ 144,777	\$ 185,000	\$ (40,223)
Underground Storage	11,000	75,000	(64,000)
Athletic and Cheerleading	86,244	282,000	(195,756)
Education Management Information Systems	6,749	8,000	(1,251)
Disadvantaged Pupil Impact Aid	9,658	19,000	(9,342)
One Net	9,000	20,000	(11,000)
Safe School Helpline Grant	1,734	2,000	(266)
Title I	96,380	175,000	(78,620)
Title V - Innovative Programs	8,661	20,000	(11,339)
Drug Free Schools	5,715	15,000	(9,285)
Title II A	44,847	80,000	(35,153)
Title II D	2,296	4,000	(1,704)

In addition, the building fund had appropriations exceeding total certified resources at the time of the original appropriation measure in the amount of \$22,267,017.

The following funds had expenditures plus outstanding encumbrances exceeding appropriations at June 30, 2005, contrary to Ohio Revised Code Section 5705.41(B):

Fund	Appropriations	Budgetary Expenditures	Variance
Bond Retirement	\$ 33,100,000	\$ 51,609,011	\$ (18,509,011)
Title VI-B	184,500	296,343	(111,843)

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

- 1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).
- 7) Certain bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25 percent of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2005, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$1,940,704, which includes \$4,000 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$2,373,027 of the School District's bank balance of \$2,473,027 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance Corporation.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, 2005, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities	
		6 Months or Less	7 to 12 Months
STAROhio	\$ 5,251,673	\$ 5,251,673	\$ 0
FNMA DN	14,427,761	14,427,761	0
FHLMC DN	7,411,878	5,477,738	1,934,140
FHLB DN	10,944,046	10,944,046	0
FNMA	2,988,016	1,996,591	991,425
FHLB	3,977,634	3,977,634	0
FHLMC	990,816	0	990,816
Total	<u>\$ 45,991,824</u>	<u>\$ 42,075,443</u>	<u>\$ 3,916,381</u>

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

Credit Risk. The School District's investments in FNMA DN, FHLMC DN, FHLB DN, FNMA, FHLB and FHLMC were all rated AAA and Aaa by Standard and Poor's and Moody's Investor Services, respectively. STAROhio has been given a AAA rating by Standard and Poor's.

Concentration of Credit Risk. The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2005:

Investment Type	Fair Value	Percent of Total
STAROhio	\$ 5,251,673	11.42%
FNMA DN	14,427,761	31.37%
FHLMC DN	7,411,878	16.12%
FHLB DN	10,944,046	23.80%
FNMA	2,988,016	6.50%
FHLB	3,977,634	8.65%
FHLMC	990,816	2.15%
Total	<u>\$ 45,991,824</u>	<u>100.00%</u>

NOTE 6: PROPERTY TAXES

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 6: PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received during calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004 on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2002, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, the School District did not receive payment from the Licking County Auditor until July 2005.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$1,749,118 in the general fund and \$606,703 in the debt service fund.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 6: PROPERTY TAXES (Continued)

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$ 478,535,130	90.16%	530,053,120	89.87%
Public Utility Personal	11,603,570	2.19%	12,921,650	2.19%
Tangible Personal Property	40,601,688	7.65%	46,814,040	7.94%
Total Assessed Value	\$ 530,740,388	100.00%	\$ 589,788,810	100.00%
 Tax rate per \$1,000 of assessed value	 \$ 47.52		 \$ 47.52	

NOTE 7: RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (rent, student fees and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Student Intervention	\$ 1,515
Title III	2,084
Drug Free School Grant	1,169
Miscellaneous Federal Grants	266
 Total Intergovernmental Receivables	 \$ 5,034

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 8: CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets not being depreciated</i>				
Land	\$ 1,401,947	\$ 420,000	\$ 0	\$ 1,821,947
Construction in Progress	1,483,014	9,369,534	0	10,852,548
<i>Total Capital Assets not being depreciated</i>	<u>2,884,961</u>	<u>9,789,534</u>	<u>0</u>	<u>12,674,495</u>
<i>Capital Assets being depreciated</i>				
Land Improvements	81,836	78,150	0	159,986
Buildings and Improvements	32,523,512	19,351	0	32,542,863
Furniture and Equipment	1,468,921	201,413	(42,565)	1,627,769
Vehicles	1,396,600	67,688	0	1,464,288
<i>Total Capital Assets being depreciated</i>	<u>35,470,869</u>	<u>366,602</u>	<u>(42,565)</u>	<u>35,794,906</u>
Less: Accumulated Depreciation				
Land Improvements	(11,027)	(7,462)	0	(18,489)
Buildings and Improvements	(5,262,268)	(750,114)	0	(6,012,382)
Furniture and Equipment	(885,216)	(93,489)	18,799	(959,906)
Vehicles	(614,712)	(66,953)	0	(681,665)
<i>Total Accumulated Depreciation</i>	<u>(6,773,223)</u>	<u>(918,018)</u>	<u>18,799</u>	<u>(7,672,442)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>28,697,646</u>	<u>(551,416)</u>	<u>(23,766)</u>	<u>28,122,464</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 31,582,607</u>	<u>\$ 9,238,118</u>	<u>\$ (23,766)</u>	<u>\$ 40,796,959</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 392,898
Special	42,556
Vocational	33,087
Support Services:	
Pupils	38,354
Instructional Staff	55,251
Administration	42,724
Fiscal	2,627
Operation and Maintenance of Plant	118,936
Pupil Transportation	75,201
Central	5,347
Operation of Non-Instructional Services:	
Food Service Operations	50,872
Extracurricular Activities	60,165
Total Depreciation Expense	<u>\$ 918,018</u>

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 9: RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Indiana Insurance Company for property insurance and Auto-Owners Insurance for fleet insurance. The types and amounts of coverage provided are as follows:

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

During fiscal year 2005, the School District joined together with other school districts in Ohio to participate in the Metropolitan Educational Council/Marsh, a council of governments organized under Revised Code Section 167, with membership primarily consisting of Ohio public school districts. The Council is a joint self-insurance pool that provides for the purchase of certain policies of casualty, property, liability, and other types of insurance for the benefit of the Council and members.

The types and amounts of coverage provided by the Metropolitan Educational Consortium/Marsh, Inc. are as follows:

<u>Coverage</u>	<u>Amount</u>
General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	3,000,000
Products – Completed Operations Aggregate Limit	3,000,000
Medical Expense Limit – Per Person/Accident	5,000
Violence Liability:	
Violence Annual Aggregate	1,000,000
Death Result of Violent Act per Person	50,000
Death Result of Violent Act Aggregate	500,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease – Each Employee	1,000,000
Disease – Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educators Legal Liability (\$2,500 deductible):	
Per Claim	1,000,000
Annual Aggregate	2,000,000
Defense Annual Aggregate	1,000,000
Employment Practices Injury per Claim	1,000,000
Employment Practices Injury Aggregate	2,000,000

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 9: RISK MANAGEMENT (Continued)

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

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17) established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and libraries that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. Managed Care Organization provides administration costs and actuarial services to the GRP.

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004 and 2003 were \$983,208, \$803,208 and \$711,112, respectively; 82 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2002. \$178,695 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were \$24,696 made by the School District and \$37,662 made by the plan members.

B. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$343,368, \$257,736 and \$133,514, respectively; 43 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$195,565, represents the unpaid contribution for fiscal year 2005.

NOTE 11: POSTEMPLOYMENT BENEFITS

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 11: POSTEMPLOYMENT BENEFITS (Continued)

All retirees DC and Combined Plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$70,229 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$165,231.

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2005 were as follows:

	Principal Outstanding July 1, 2004	Additions	Reductions	Principal Outstanding June 30, 2005	Amounts Due in One Year
Governmental Activities					
School Improvement Bonds-2000	\$ 935,000	\$ 0	\$ 5,000	\$ 930,000	\$ 5,000
School Improvement Bonds-2001					
Serial and Term Bonds	21,995,000	0	18,145,000	3,850,000	1,225,000
Capital Appreciation Bonds	74,032	0	0	74,032	0
Accretion on Capital Appreciation Bonds	106,617	49,374	0	155,991	0
School Improvement Bonds-2004					
Serial and Term Bonds	28,930,000	0	0	28,930,000	0
Capital Appreciation Bonds	70,000	0	0	70,000	0
Accretion on Capital Appreciation Bonds	10,412	28,290	0	38,702	0
Unamortized Premium	2,239,979	0	89,599	2,150,380	0
School Construction Current Refunding Bonds - 2005					
Serial and Term Bonds	0	11,000,000	0	11,000,000	0
Unamortized Premium	0	615,003	0	615,003	0
School Bus Bonds - 2005					
Serial Bonds	0	1,000,000	0	1,000,000	95,000
Unamortized Premium	0	20,227	0	20,227	0
School Improvement Bonds-2005					
Serial and Term Bonds	0	16,925,000	0	16,925,000	0
Capital Appreciation Bonds	0	174,994	0	174,994	0
Accretion on Capital Appreciation Bonds	0	4,424	0	4,424	0
Unamortized Premium	0	1,630,711	0	1,630,711	0
Refunding Loss	0	(1,431,744)	0	(1,431,744)	0
Bond Anticipation Note	14,500,000	0	14,500,000	0	0
Bond Anticipation Note	14,500,000	0	14,500,000	0	0
Bond Anticipation Note	0	11,000,000	0	11,000,000	11,000,000
Capital Leases	91,161	55,016	62,862	83,315	23,392
Compensated Absences	450,226	223,547	12,019	661,754	97,063
<i>Total Long-Term Obligations</i>	<u>\$ 83,902,427</u>	<u>\$ 41,294,842</u>	<u>\$ 47,314,480</u>	<u>\$ 77,882,789</u>	<u>\$ 12,445,455</u>

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

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

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

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

On June 1, 2005, the School District issued \$1,000,000 in general obligation bonds. The School District received \$1,020,227 in bond proceeds, which included a \$20,227 premium. The bonds were issued for a ten year period with a final maturity at December 1, 2015. The debt proceeds will be used to purchase new school buses.

2001 School Improvement Bonds

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

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

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

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

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

The capital appreciation bonds will mature December 1, 2013 through 2017. These bonds were purchased at a discount at the time of issuance and, at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$2,945,000. The fiscal year 2005 accretion amount is \$49,374.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

2004 School Improvement Bonds

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

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

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

The capital appreciation bonds will mature December 1, 2011 through 2015. These bonds were purchased at a discount at the time of issuance and, at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$2,875,000. The fiscal year 2005 accretion amount is \$28,920.

2005 School Construction Current Refunding General Obligation Bonds

On June 1, 2005, the School District issued \$11,000,000 in voted general obligation bonds, which included serial and term bonds in the amount of \$7,830,000 and \$3,170,000, respectively. The bonds will refund \$11,000,000 of bond anticipation notes. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2032.

The bonds were issued with a premium of \$615,003, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2005 was \$-0-. The issuance costs of \$119,464 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2005 was \$-0-.

The \$11,000,000 bond issue consists of serial and term bonds. The serial bonds were issued with a varying interest rate of 3.5 – 5.0 percent. The term bonds that mature in fiscal year 2033, with an interest rate of 5.0 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2028 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2028	\$ 575,000
2029	600,000
2030	635,000
2031	665,000

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

The term bonds maturing after December 1, 2015 are subject to optional redemption, in whole or in part, on any date in order of maturity as determined by the School District and by lot within a maturity, at the option of the board of Education on or after June 1, 2015.

2005 School Improvement Advance Refunding General Obligation Bonds

On June 1, 2005, the School District issued \$17,099,994 of general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$14,815,000, \$2,110,000 and \$174,994, respectively. The bonds refunded \$17,100,000 of outstanding 2001 School Improvement General Obligation Bonds. The bonds were issued for a twenty-three year period with final maturity at December 1, 2028. At the date of refunding, \$18,730,704 (including premium and after underwriting fees, and other issuance costs) was received to pay off old debt.

These refunding bonds were issued with a premium of \$1,630,711, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2005 was \$-0-. The issuance costs of \$197,035 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2005 was \$-0-. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$1,431,744. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2005 was \$-0-.

The \$17,099,994 bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 3.5 – 5.0 percent. The term bonds that mature in fiscal year 2033, with an interest rate of 5.0 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2028 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2028	\$ 2,110,000

The capital appreciation bonds mature December 1, 2016 through December 1, 2018. These bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$1,255,000. For fiscal year 2005, the accretion amount was \$4,424.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

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

	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 1,325,000	\$ 2,997,081	\$ 0	\$ 0	\$ 1,325,000	\$ 2,997,081
2007	1,270,000	2,944,175	0	0	1,270,000	2,944,175
2008	1,670,000	2,890,449	0	0	1,670,000	2,890,449
2009	1,525,000	2,828,165	0	0	1,525,000	2,828,165
2010	2,080,000	2,751,320	0	0	2,080,000	2,751,320
2011-2015	3,025,000	13,216,351	93,332	2,861,668	3,118,332	16,078,019
2016-2020	8,670,000	12,197,769	225,694	3,894,306	8,895,694	16,092,075
2021-2025	22,665,000	8,064,231	0	0	22,665,000	8,064,231
2026-2030	18,410,000	2,544,484	0	0	18,410,000	2,544,484
2031-2033	1,995,000	152,625	0	0	1,995,000	152,625
Total	\$ 62,635,000	\$ 50,586,650	\$ 319,026	\$ 6,755,974	\$ 62,954,026	\$ 57,342,624

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

The School District's overall legal debt margin at June 30, 2005, was \$915,959, with an unvoted debt margin of \$485,185. The School District was approved as a special needs district on February 15, 2000, by the Ohio Department of Education. This approval was granted based on projected tax valuation growth figures submitted by the School District to the Ohio Department of Education. The approval of the School District as a special needs district allowed them to issue the new school improvement bonds.

NOTE 13: CAPITALIZED LEASES – LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into lease agreements for the acquisition of several copiers. In prior years, the School District entered into lease agreements for several copiers. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service in the basic financial statements for the government funds.

The copiers acquired by the leases have been capitalized in the governmental capital assets in the amount of \$148,695. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 13: CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005:

Year ending June 30,	2006	Copiers
	2007	\$ 29,788
	2008	24,700
	2009	21,978
	2010	13,782
		6,660
		96,908
Less amount representing interest		(13,593)
Present value of minimum lease payments		\$ 83,315

NOTE 14: INTERFUND TRANSFERS

During the fiscal year, the general fund transferred \$3,611 to the uniform supply fund to aid in operations.

NOTE 15: CONTRACT OBLIGATIONS

As of June 30, 2005, the School District had contractual purchase commitments for the following projects:

Contractor	Purchase Commitments	Amount Paid as of 6/30/2005	Amounts Remaining on Contracts
Performance Site Management - Sitework	\$ 1,730,767	\$ 1,442,368	\$ 288,399
M.G. Abbott, Inc. - Electrical	570,771	310,769	260,002
Gutridge Plumbing, Inc. - Fire Protection	598,552	28,342	570,210
Aggressive Mechanical Inc. - Construction	126,154	89,191	36,963
Econo, Inc. - Heating & Cooling	435,000	79,117	355,883
Claypool Electric, Inc. - Electrical & Technology	1,857,157	196,511	1,660,646
Knight Electric, Inc. - Technology	24,964	672	24,292
Gutknecht Construction Co. - General Trades	2,920,964	1,391,553	1,529,411
Winchester Mechanical, Inc. - Plumbing	232,505	88,851	143,654
Gateway Mechanical - Heating & Cooling	1,291,916	407,091	884,825
Holdridge Mechanical, Inc. - Plumbing	443,000	16,125	426,875
H & A Mechanical, Inc. - Heating & Cooling	1,135,000	60,648	1,074,352
R.W. Setterlin Company - General Trades	5,736,060	294,015	5,442,045
Houston Plumbing & Heating (Econo, Inc.)	1,062,200	0	1,062,200
Regency Construction - Construction	2,782,169	1,278,178	1,503,991
Best Restaurant Equipment - Kitchen Equipment	221,809	0	221,809
Robertson Construction Co. - Construction	5,811,200	348,985	5,462,215
Schorr Architects, Inc.	2,158,500	1,766,550	391,950
Louis R. Polster - Kitchen Equipment	76,850	0	76,850
<i>Totals</i>	\$ 29,215,538	\$ 7,798,966	\$ 21,416,572

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

Licking Area Computer Association – The School District is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services fourteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. The School District paid \$98,478 to LACA during fiscal year 2005. Financial statements for LACA can be obtained from their fiscal agent – The Career and Technology Education Centers of Licking County, 150 Price Road, Newark, OH 43055.

Metropolitan Educational Council – The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members, which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District paid \$785,064 to MEC during fiscal year 2005. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Boulevard, Suite 604, Columbus, OH 43232.

Central Ohio Special Education Regional Resource Center – The Central Ohio Special Education Regional Resource Center (COSERRC) is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in Central Ohio (which comprise 60 percent of the Board), two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Developmental Disabilities, and representatives of universities. The School District participates in the following services of COSERRC: Identification and Program Development Project, Regional Educational Assessment Programming Project, Instructional Resource Center Project, Early Childhood Services Project, and the Ohio Resource Center for Low Incidence and Severely Handicapped Project. These services are to assist the School District in complying with mandates of Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the districts involved in COSERRC. COSERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for COSERRC. The School District made no contribution to COSERRC in fiscal year 2005.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS (Continued)

School Study Council of Ohio – The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and have voting privileges. School districts may elect to be associate members which entitles them to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. The Board consisted of fourteen members. In fiscal year 2005, Licking Heights obtained active membership privileges and paid a membership fee of \$415.

NOTE 17: INSURANCE PURCHASING POOL

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

NOTE 18: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

NOTE 19: SET-ASIDE CALCULATIONS

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

NOTE 19: SET-ASIDE CALCULATIONS (Continued)

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2004	\$ (390,520)	\$ (30,478,222)
Current year set-aside requirement	277,150	277,150
Qualifying Disbursements	(514,221)	(8,837,488)
Totals	\$ (627,591)	\$ (39,038,560)
Set-aside Balance Carried Forward to Future Fiscal Year	\$ (627,591)	\$ (39,038,560)
Set-aside Reseve Balance as of June 30, 2005	\$ 0	\$ 0

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

NOTE 20: CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*" and GASB Technical Bulletin 2004-02, "*Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks; credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other post-employment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the School District; however, an additional note disclosure can be found in Note 5. The implementation of GASB Technical Bulletin No. 2004-02 did not have a material affect on the fund balances of the District as they were previously reported as of June 30, 2004.

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**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$44,660	\$0	\$44,660
School Breakfast Program	05PU-2004/2005	10.553	31,782	0	31,782	0
National School Lunch Program	LLP4-2004/2005	10.555	161,927	0	161,927	0
Total U.S. Department of Agriculture - Nutrition Cluster			193,709	44,660	193,709	44,660
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2005	84.010	\$96,380	0	\$96,380	0
Special Education Grants to States	6BSF-2005	84.027	294,863	0	288,413	0
Safe and Drug Free Schools and Communities	DRS1-2005	84.186	5,089	0	4,782	0
Innovative Educational Program Strategies	C2S1-2005	84.298	8,661	0	8,661	0
Education Technology State Grants	TJS1-2005	84.318	2,296	0	2,226	0
English Language Acquisition Grants	T3S2-2005	84.365	5,329	0	4,771	0
Improving Teacher Quality State Grants	TRS1-2005	84.367	44,847	0	47,288	0
Total U.S. Department of Education			457,465	0	452,521	0
Totals			\$651,174	\$44,660	\$646,230	\$44,660

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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Heights Local School District, Licking County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the District's management dated February 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Licking Heights Local School District
Licking County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 10, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Licking Heights Local School District, Licking County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Licking Heights Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005. In a separate letter to the District's management dated February 10, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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Licking Heights Local School District
Licking County
Independent Accountants' Report on Compliance With Requirements
Applicable to the Major Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

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

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

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

Betty Montgomery
Auditor of State

February 10, 2006

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<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 noncompliance at the financial statement level (GAGAS)?	Yes
<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?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States - CFDA #84.027
<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

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

Finding Number	2005-001
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Non-Compliance Citation - Appropriations Exceeding Certified Resources

Ohio Revised Code Section 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. At June 30, 2005, the District had appropriations exceeding certified resources available for expenditures in the following funds:

<u>Fund</u>	<u>Total Certified Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Public School Support - 018	\$144,777	\$185,000	(\$40,223)
Underground Storage - 031	11,000	75,000	(64,000)
Athletic and Cheerleading - 300	86,244	282,000	(195,756)
Educ Mgmt Info Systems - 432	6,749	8,000	(1,251)
Disadv Pupil Impact Aid - 447	9,658	19,000	(9,342)
One Net - 451	9,000	20,000	(11,000)
Safe School Helpline Grant - 499	1,734	2,000	(266)
Title I - 572	96,380	175,000	(78,620)
Title V Innovative Programs - 573	8,661	20,000	(11,339)
Drug Free Schools - 584	5,715	15,000	(9,285)
Title II A - 590	44,847	80,000	(35,153)
Title II-D - 599	2,296	4,000	(1,704)

In addition, at the time the original appropriation measure was passed, September 20, 2004, the District had appropriations exceeding certified resources available for expenditures in the Building Fund - 004 in the amount of \$22,267,017, however this was corrected in November of 2005.

We recommend the Treasurer review the Amended Certificates of Estimated Resources and Supplemental Appropriation Measures to ensure that total appropriations from each fund do not exceed the total of the certified resources available for expenditures. Appropriating and spending more than what is estimated to be available in a fund could result in a deficit fund balance.

**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

Finding Number	2005-002
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Non-Compliance Citation - Expenditures Exceeding Appropriations

Ohio Revised Code Section 5705.41(B) states in part that no subdivision or taxing unit is to make any expenditure of money unless it has been appropriated as provided in such chapter. As of June 30, 2005, the District had expenditures plus outstanding encumbrances exceeding appropriations within the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Bond Retirement - 002	\$33,100,000	\$51,609,011	(\$18,509,011)
Title VI-B - 516	184,500	296,343	(111,843)

Expenditures in excess of appropriations could cause the District to spend more money than it has available and could cause fund deficits. We recommend the Treasurer periodically compare actual expenditures plus outstanding encumbrances to appropriations to avoid potential overspending and fund deficits.

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**LICKING HEIGHTS LOCAL SCHOOL DISTRICT
LICKING COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 4, 2006**